



SAARJ Journal on Banking & Insurance Research (SJBIR)

(Double Blind Refereed & Peer Reviewed International Journal)



DOI: **10.5958/2319-1422.2021.00013.8**

THEORETICAL AND METHODOLOGICAL ASPECTS OF THE FORMATION AND IMPROVEMENT OF INVESTMENT POLICY OF COMMERCIAL BANKS

Ataniyazov Jasurbek Khamidovich*; **Mannonov Nabiddin****

*Professor,

Doctor of Economics,

Head of the Department of International Finance and Credit,
Tashkent institute of Finance, UZBEKISTAN

Email id: jasurbek156@gmail.com,

**Student of Tashkent institute of finance,
UZBEKISTAN

ABSTRACT

This article describes the investment activities of commercial banks, important elements of the formation of investment policies of banks and the factors affecting them, in addition, provides recommendations for improvement of the investment policies of commercial banks.

KEYWORDS: *Investment, Investment Policy, Investment Strategy And Tactics, Liquidity, Investment Portfolio, Export.*

INTRODUCTION

Financing the real sector of the economy plays an important role in its sustainable development. The activities of commercial banks have a special role in resolving this issue. Economic reforms aimed at increasing the investment activity of banks, developing industrial production, strengthening the integration of commercial banks and industrial enterprises, increasing investment in the real sector of the economy and, on this basis, structural restructuring of the economy, equipping enterprises with modern equipment and technologies is increasing. As a result of such important measures, the volume of credit investments of commercial banks in 2020 will reach 65.3 trillion soums. As of January 1, 2021, it amounted to 276.9 trillion soums. The share of credit investments in GDP increased to 47.7% (in 2016 - 26.4%). In 2019, commercial banks will allocate 88.3 trillion soums to finance investment projects of enterprises in the real sector of the economy soums or 2.3 times more than in 2018 due to investment loans, including 2.1 bln. soums from foreign credit lines. Loans in the amount of USD were allocated. The Action Strategy for the Development of the Republic of Uzbekistan for 2017-2021 emphasizes¹ deepening and stabilizing

the reform of the banking system, increasing the level of capitalization and deposit base of banks, strengthening their financial stability and reliability, further expansion of promising investment projects and lending to small businesses and private entrepreneurs." identified as one of the directions. Effective implementation of these tasks requires improvement of investment policy of banks.

RESEARCH METHODOLOGY

It is known that in a developed market economy, the accumulation and redistribution of funds is carried out by financial intermediaries, including commercial banks, investment funds, insurance companies and others. As a result of the investment process, funds are directed to the manufacturing sector through the financial sector, in which commercial banks play an important role.

The issues of formation of investment policy of commercial banks were discussed by foreign economists A. Saunders, G. Mc.Callum, R. Lucas, R. King, I. Blank, A.G. Gryaznova, L.G. Efimova, V. Zhukova, V. Kovaleva, It is reflected in the scientific research of Yu.Babicheva, G.Beloglazova, A.Panchenko and others.

Theoretical and practical aspects of investment policy of commercial banks and increase of investment activity of banks are conducted in the scientific works of economists of our country T.Karaliev, Sh.Abdullaeva, O.Iminov, T.Bobakulov, N.Jumaev, A.Omonov.

It is known that the investment activity of banks has an important aspect related to their macroeconomic role as financial intermediaries. In this case, banks will be able to meet the investment needs of businesses. Therefore, from a macroeconomic point of view, the investment activity of banks is understood as the activity aimed at meeting the investment needs of the socio-economic sectors and the economy at the regional and national levels.

The need to increase the participation of banks in the investment process is determined by the effective development of the economy and the banking system in interdependence. In general, the main direction of banks' participation in investment processes includes the direction of bank funds for investment purposes, the issuance of loans of an investment nature, equity participation and investment in securities.²

The general policy of bank development, which is a priority in the development of strategic goals of investment activity, serves as a condition for the formation of investment policy. Investment policy is an important component of the overall economic policy, as a factor in ensuring the effective development of the bank.

The main purpose of banks' investment activities is to increase the rate of return on investments at a level of risk that is close to the probability of investment. Therefore, it is expedient for commercial banks to consistently implement measures aimed at effective implementation and improvement of investment policy in their activities. At the same time, special attention should be paid to a thorough analysis of the developed investment policy and evaluation of its future results, as well as the introduction of measures to increase its effectiveness by constantly monitoring its current state.

The process of forming the investment policy of commercial banks can be described in the general case as in Figure 1.

In addition to the general objectives of investment policy development in accordance with the economic development strategy chosen by the Bank, the following should be taken into account:

- ensuring the stability of bank resources;
- Expansion of the capital;
- Diversification of investments in order to reduce the overall level of risk in banking and increase financial stability;
- maintaining liquidity;
- reducing the share of non-profit assets;
- Expansion of banking activities through the establishment of branches and expansion of services;
- increasing the number of clients, strengthening the influence on the activities of enterprises through the acquisition of securities, their share in the authorized capital and participation in investment projects.

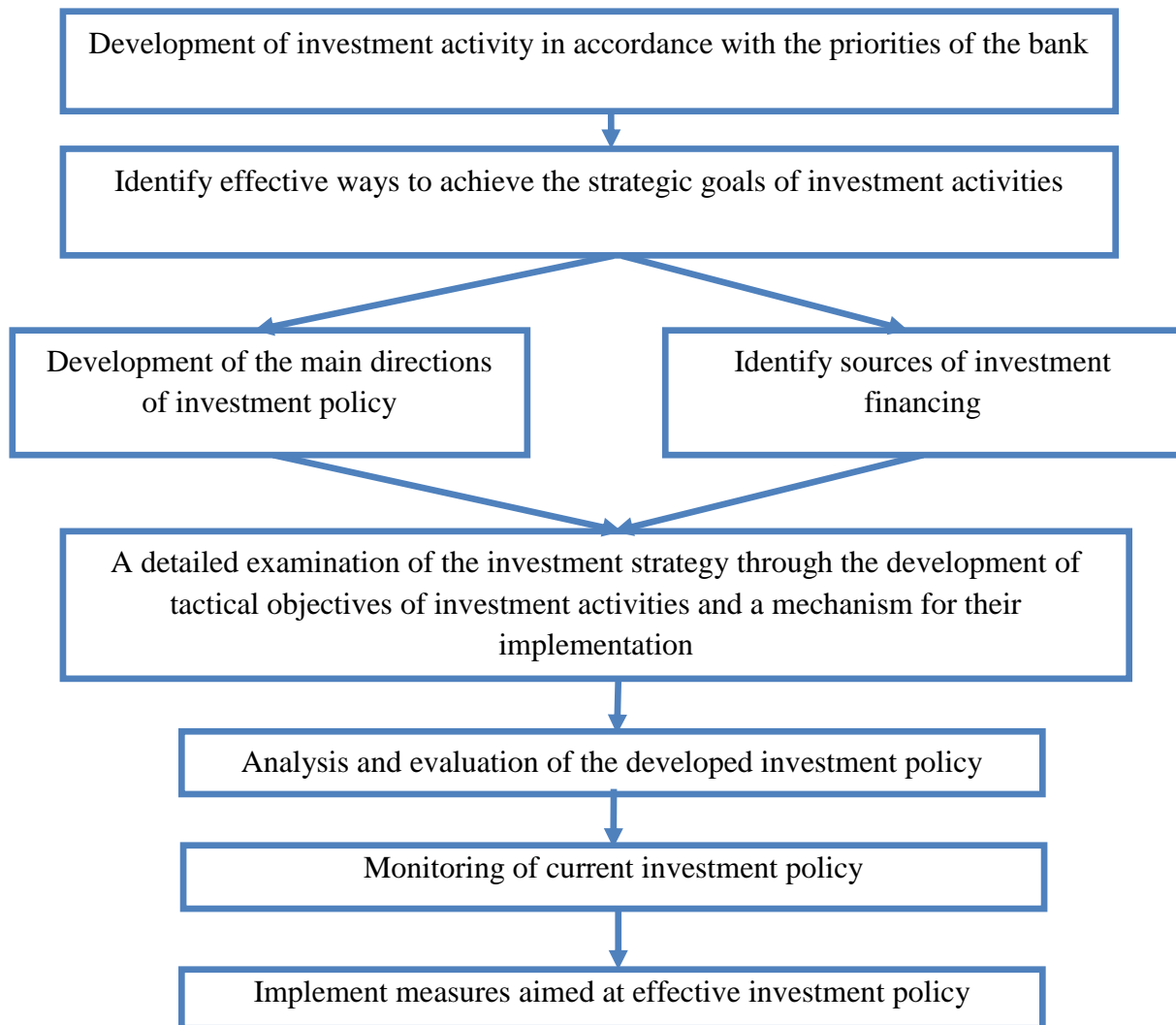


Figure 1. The process of formulating the investment policy of commercial banks

Identifying effective ways to achieve the strategic goals of investment activity involves the development of key areas of investment policy and the establishment of principles for the formation of sources of investment financing. According to these criteria, the following areas of investment policy can be identified:

- investment for profit in the form of payments, dividends and interest;
- investment for the purpose of gaining income in the form of capital increase as a result of growth of market value of investment assets;
- Investment for the purpose of earning income as current income and capital growth.

Targeting one of these areas is a key element in the formation of investment policy, which determines the composition of investment objects, sources of income, the optimal level of risk and approach to the analysis of investments.

In choosing the first direction of investment policy, the main focus is on income stability. Demonstrating traditional approaches to investment, this direction involves the placement of funds in assets with high liquidity, reliability and long-term return on investment at a minimum level of risk. The main purpose of the investment analysis in this area is to determine the level of reliability of investments, income security, level of risk and the possibility of their hedging. At the same time, the main focus is on the current and previous aspects of the analysis, such as the collection and processing of data on the return on securities, the rating of the issuing companies and the movement of interest rates.

Increasing the market value of investment assets is the first priority when focusing investment policy on capital growth, and their profitability is considered as one of the factors determining the value of assets. Capital growth-oriented policies are associated with the placement of funds in investment facilities and are characterized by an increased level of risk that affects their impairment. The increase in the market value of investment objects may occur as a result of improving their investment quality and short-term fluctuations in market conditions.

An important element of investment policy is an in-depth analysis of the structure of liabilities. At the same time, special attention should be paid to the selection of the effective ratio between the bank's own capital and its debt obligations, the definition of the structure of debt obligations by maturity, the search for additional sources of investment resources.

Investment decisions by the bank should be aimed at achieving an effective ratio between the structure and volume of investments. At the same time, the most important function of the bank's investment policy is the formation of resource supply with high returns and low risk. This situation requires forecasting of investment directions for the future period on the basis of possible changes in the structure, volume of investment investments and their sources of financing. Thus, the process of effective management of investment activities should cover such important tasks as the formation of the main directions of investment and the identification of the necessary resources.

A more reliable and stable source of investment financing is the commercial bank's own funds. Due to the important nature of banking, the bank's own funds occupy a higher share in the total volume of bank resources than in other areas of commercial activity.

Macroeconomic factors influencing the investment policy of commercial banks include:

- political and economic situation in the country;
- the state of the financial and investment markets;

- a set of legal and regulatory framework for banking;
- tax policy;
- Stability and structure of the banking system.

Taking into account and analyzing these factors in the formation of investment policy requires the collection and processing of primary data. Analytical data for assessing investment opportunities are classified as follows:

- macroeconomic situation and investment climate;
- key indicators characterizing the macroeconomic development of the investment market;
- key indicators for the development of individual segments of the investment market;
- indicators of investment attractiveness of sectors of the economy;
- indicators of investment attractiveness of the regions;
- data on the dynamics of individual investment instruments;
- information on the activities of business entities;
- legal and regulatory documents determining the investment activity of banks;
- The practice of taxation of banking activities.

The results of the evaluation of the above indicators play an important role in the investment decision-making process. The quality of the initial data largely determines the level of investment analysis.

The main microeconomic factors influencing the formation of investment policy include:³

- the structure and size of the resource base, which determines the scope of investment activities;
- the general direction of the bank's activities and the importance of strategic goals that lead to the choice of investment policy;
- quality of investments, taking into account the level of profitability, liquidity and risk;
- return on assets;
- The amount of costs in the formation and management of the investment portfolio.

The development of investment policy requires not only the choice of investment directions, but also to take into account a number of limitations associated with the need to ensure the balance of investment of a commercial bank. Such restrictions are set by the monetary policy regulators and banks on the basis of regulations.

Assets can be classified according to the level of liquidity in the structure of investments as follows: highly liquid assets, liquid assets and low-liquid assets. It is necessary to reconsider the investment portfolio in the event of changes in the liquidity of various groups of investment assets, violations of established liquidity requirements and increased risk.

The process of analysis and evaluation of the developed investment policy is based on the following criteria⁴:

- compliance of the investment policy with the general economic policy of the bank in terms of timing, directions and objectives;
- internal and external balance of investment policy;
- level of implementation of investment policy;
- Effectiveness of investment policy.

Changes in the conditions for the implementation of investment activities require constant monitoring for the successful implementation of the developed investment policy. When an investment program is created, it may not cover the whole range of changes in internal and external factors in the future. Therefore, the variability of the investment program is ensured through current changes in the investment management process. This situation requires an assessment of the effectiveness of individual investments in the short term, identification of opportunities for exit from investment projects, reinvestment of capital in case of adverse conditions.

Analysis and results

Consistency of reforms aimed at further increasing the financial stability and reliability of the banking system in the country, creating favorable conditions for strengthening and developing the resource base of commercial banks, encouraging their investment activity, as well as ensuring a higher level of banking in accordance with generally accepted international norms is carried out with.

Resolution of the President of the Republic of Uzbekistan dated May 1, 2017 No PR-2939 "On measures to improve the management system of the fishing industry" on the development of industrial production in the country, first of all, the construction of processing facilities, the introduction of modern technologies in enterprises, increasing export potential, PR-3327 of October 16, 2017 "On measures to further develop the beekeeping industry in the country" and the decisions and decrees aimed at the development of livestock, poultry and other sectors, it serves to increase the participation of banks in creating new production facilities.

The investment company established by the joint-stock commercial mortgage bank "Ipoteka-Bank" with a share of at least 51% in the charter capital and other organizations of the fishing industry are the founders of the regional "Baliksanoat" LLC.

In accordance with the Resolution of the President of the Republic of Uzbekistan dated October 16, 2017 PR-3327 "On measures to further develop the beekeeping industry in the country" "Alokabank" Joint Stock Commercial Bank established a leasing company in the form of a limited liability company:

- organization and provision of beehives, necessary equipment and supplies at the expense of loans from commercial banks and the leasing company;
- Leasing of inventory, equipment, special vehicles and trailers used in beekeeping, as well as modern technological lines for honey packaging.

Based on the above data, it can be noted that the establishment of investment, leasing companies by commercial banks and the fact that banks provide services such as consulting, information analysis and marketing, not only to finance promising projects, serve to increase their investment activity.

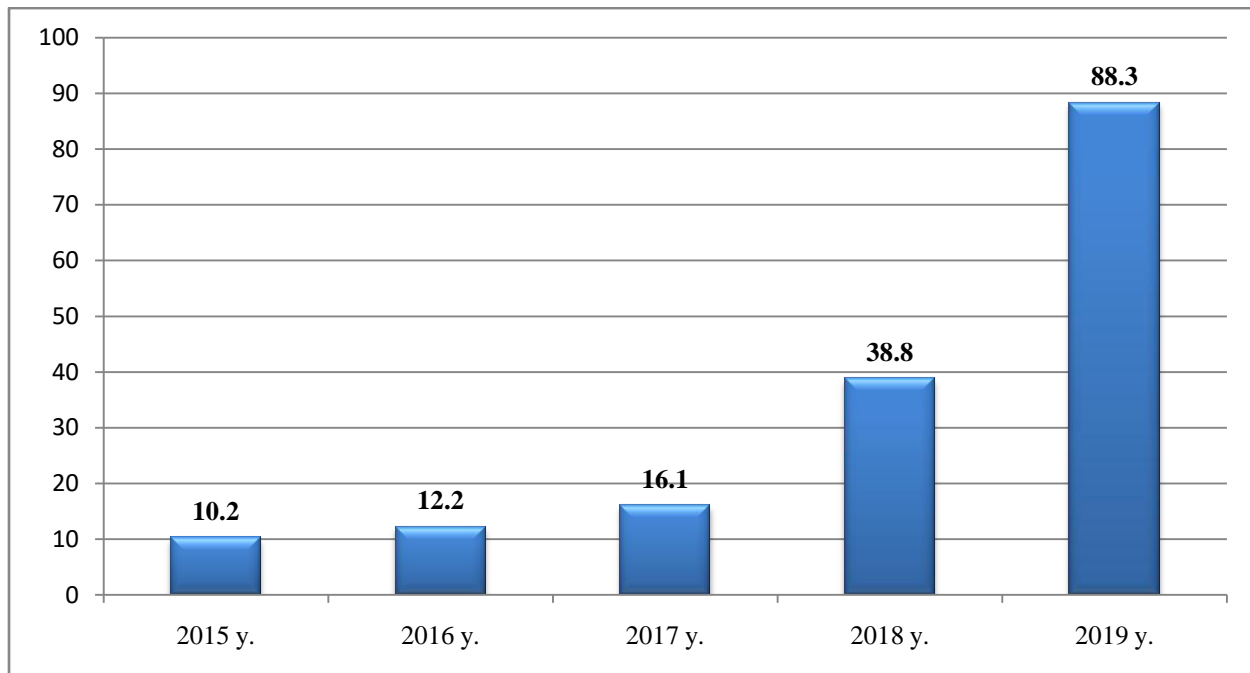


Figure 2. Volume of investment loans provided by commercial banks (in trillion soums)⁶

As a result of the consistent implementation of measures aimed at enhancing the participation of commercial banks in the investment process in our country, there is a tendency to increase the volume of loans directed by them for investment purposes. In 2019, commercial banks will allocate 88.3 trillion soums for financial support of investment projects for modernization, technical and technological re-equipment and diversification of production in the real sector of the economy. soums or 2.3 times more than in 2018.

Looking at the structure of investment loans, the high share of these loans is directed to industry and agriculture. This is due to the implementation of projects aimed at the creation of new industries in the industrial sector of the national economy and the modernization, technical and technological re-equipment of existing enterprises. It should be noted that the concentration of a high share of the investment portfolio of commercial banks in a separate sector may lead to an increase in risk in the future, so it is advisable for banks to pay attention to the process of diversification of the investment portfolio. In this process, special attention should be paid to the implementation of investment loans for the implementation of promising investment projects in various sectors of the economy, the assessment of the economic efficiency and risk level of investment projects.

CONCLUSION

One of the key issues in the effective implementation of investment policy by commercial banks is the development of the practice of assessing the financial risks arising in the implementation of investment projects and the development of necessary measures to address them. In this regard, commercial banks should intensify the system of monitoring in the framework of investment policy and the process of analysis of existing investment projects. This will help prevent potential risks in the investment process and the effective implementation of investment projects.

In our opinion, in improving the investment policy of commercial banks in the country and the development of their investment activities, the following should be taken into account:

- pay special attention to the process of developing strategic goals of investment policy, adapting them to the priorities of economic reforms;
- expanding the practice of using modern methods in determining the level of risk and profitability of investment projects;
- Continuous improvement of the activities of banks related to the effective management of investment risks;
- improving the practice of stress testing of banks' liquidity risk exposure using macromodels based on best international practices;
- further increase the efficiency of investment activities of banks by ensuring an optimal structure and level of costs and revenues, with particular emphasis on internal risk management systems;
- development of investment policy monitoring system;
- development of asset diversification practices by commercial banks in order to avoid risks that may arise as a result of expanding investments.

In conclusion, it should be noted that the improvement of investment policy of commercial banks and the intensification of their participation in investment processes in the future will contribute to the sustainable development of the real sector of the economy, the organization of high scientific capacity and economic growth.

REFERENCES

- Decree of the President of the Republic of Uzbekistan "On the Action Strategy for further development of the Republic of Uzbekistan". No. PD-4947, February 7, 2017. - Collection of legislation of the Republic of Uzbekistan. 2017, No. 6, Article 70.
- Banking: A Reference Guide / Edited by Yu.A. Babichev. M.: Economics, 2004.412 p.
- Karapetyan A.I. Improvement of the investment policy of commercial banks in the context of the implementation of anti-crisis programs: author. dis ... cand. economy. sciences. - Moscow, 2011. - p.9-10.
- Banking: Textbook for universities. / Ed. G.L. Beloglazova, L.I. Krolivetskaya. SPb: Peter, 2009.384 p.
- Markova O.M., Sakharov S.L., Sidorov N.V. Commercial banks and their operations. M.: INFRA-M, 2008.257 p.