

The Significance of Foreign Investments in Uzbekistan Commercial Banks and the Role and Types of Foreign Credit Lines in the Economy

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ABSTRACT

In this article, the importance of foreign investments in the development of the country's economy and commercial banks. Here's why foreign investments and foreign credit lines are important. The article also provides information on some foreign credit lines attracted by commercial banks.

In recent years, reforms to liberalize the economy and attract foreign investments in various sectors have been actively continued in Uzbekistan. As part of these economic changes, foreign investment in the commercial banking sector has emerged as a crucial element in stimulating financial growth, improving service delivery, and strengthening stability in the country's financial sector.

The liberalization of Uzbekistan's banking sector has increased the interest of foreign investors to seek opportunities in the country's financial market. The government's initiatives to create a more favorable investment environment by implementing regulatory and legal reforms, increasing transparency, and introducing investor-friendly policies have made a significant contribution to attracting foreign capital to the banking sector. During the consistent reform of the financial sector, a number of measures were implemented, and as a result, the necessary legal conditions were created for conducting advanced banking business and strengthening the competitive environment in this sector.

In particular, the Laws of the Republic of Uzbekistan "On the Central Bank of the Republic of Uzbekistan", "On Banks and Banking Activities", which conform to international standards and create an attractive legal environment for foreign investments in the financial sector. Updated laws "On regulation of currency" and "On payments and payment systems" were adopted.

Foreign investments in commercial banks of Uzbekistan are often made in the form of shares, partnership or strategic cooperation. These investments not only provide the necessary capital, but also bring experience, modern technologies and best practices from global financial markets. They help to modernize the banking system, introduce advanced risk management methods, and increase the overall efficiency and competitiveness of the banking sector.

The flow of foreign investments plays an important role in ensuring financial growth and stability in the banking sector of Uzbekistan. These investments will provide capital to banks, expand their lending capabilities, support economic activity, and facilitate financing opportunities for business entities and individuals.

In addition, foreign investment often promotes the development of innovative financial products and services. This includes introducing digital banking solutions such as mobile banking apps and online payment systems, which will help improve financial inclusion and access to banking services across the country.

Foreign investments in commercial banks serve the overall stability of the financial system. Increased capitalization and adherence to international standards and practices strengthen banks' resilience to financial shocks. This, in turn, increases the confidence of depositors and provides a more robust and reliable banking system for local and international stakeholders.

May 12, 2020 Decree of the President of the Republic of Uzbekistan on the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025 No. PF-5992.

Transformation and privatization of the following banks and attraction of foreign investments are envisaged within the scope of this Strategy:

- 1) "Ipoteka-bank" ATIB and "Uzsanoatkurilishbank" ATB with the support of the International Finance Corporation;
- 2) "Aloqabank" ADB with the support of the European Bank for Reconstruction and Development and the Asian Development Bank;
- 3) "Asaka" ADB with the support of the European Bank for Reconstruction and Development;
- 4) Considering the issue of merging "Kishloq Kurilish Bank" ADB and "Turon Bank" ADB by involving international financial institutions and consulting organizations.

As part of the implementation of this Strategy, it is planned to sell the package of state shares in JSC "Khalq Bank" and "Asia Alliance Bank" to foreign strategic investors.

Although foreign investments bring many benefits to the banking sector of Uzbekistan, problems still remain. Ensuring the harmonious integration of foreign investment while preserving local interests, ensuring regulatory compliance and managing the risks associated with foreign capital inflows requires a delicate balance.

It is essential to develop an effective regulatory framework and control mechanisms to protect against potential risks and ensure that foreign investment is consistent with the country's long-term economic goals. In addition, efforts to build local capacity, encourage knowledge transfer, and improve skills among local banking professionals are important to maximize the benefits of foreign investment.

Credit lines from several international financial institutions and foreign banks have been attracted by commercial banks to provide financial support to the activities of business entities,

to increase the types of loans offered to them, as well as to finance prospective investment projects. You can learn more about these credit lines below. We will consider some of the credit lines attracted by the mortgage bank:

1st European Bank for Reconstruction and Development

Credit allocation source: from the funds of the European Bank for Reconstruction and Development

Loan purpose: To purchase finished products and raw materials to replenish working capital

Maximum loan amount: no less than the equivalent of 50,000 US dollars

Currency: USD/Euro

Loan percentage per annum: Foreign financial institution margin + at least 6% Mortgage bank margin

Credit period: up to 12 months (from 3 to 6 months for food purchases)

Form of credit allocation: By money transfer

Loan repayment procedure: Interest and principal repayment - paid quarterly in 3, 6, 9, 12 months.

Additional terms. Loan funds should be issued to the countries covered by the EBRD. The import contract must be concluded directly with the manufacturers (contracts with intermediary companies, dealers and offshore companies are not accepted).

Loan funds are not allocated for any activities related to the production, sale or processing of cotton grown in Uzbekistan, included in the list of ecological and social prohibitions of the EBRD.

Credit support: types of support specified in the Bank's Credit Policy and Lending Regulation

Credit allocation source: from the funds of the Asian Development Bank

The purpose of the loan: 1) to develop the creation of the added value chain in the field of horticulture for investment purposes (purchase of fixed assets) under the agreement No. 3471; 2) Development of the creation of the added value chain in the horticulture sector for investment purposes (purchase of fixed assets) under the agreement No. 3673 (additional financing); 3) Development of the creation of the added value chain in the livestock and fisheries sectors for investment purposes under the agreement No. L3823

Maximum loan amount: the maximum loan amount for transactions No. 3471/3673 is up to 5,000,000 US dollars per borrower;

Currency: in US dollars for transactions No. 3471/3673; In national currency according to transaction No. L3823 (allocated national currency can be converted to US dollars at the customer's request)

Loan percentage per annum: 6% in US dollars (3% ABR margin + 3% Mortgage bank margin) for transactions No. 3471/3673; 18% per annum in national currency under transaction No. L3823 (the main interest rate of the Central Bank of the Republic of Uzbekistan + 3% Mortgage bank margin).

PF-150 of June 9, 2022, PF-287 of December 30, 2022, in cases where compensation for interest expenses on loans is provided by the State Fund for Support of Entrepreneurship, loans in national currency at an annual rate of 18% will be allocated in accordance with the requirements of Decree No. 428 of August 4, 2022 of the Cabinet of Ministers

Loan term: - up to 10 years under transactions No. 3471 (last loan term until April 4, 2037); - up

to 10 years according to transactions No. 3673 (the last term of the loan is until December 1, 2038); - up to 8 years according to the agreement No. L3823 (the deadline of the loan is until June 5, 2030)

Form of credit allocation: By money transfer. L3823 loan is issued only to ADB member states
Loan repayment procedure

Depending on the project, the grace period can be set up to 36 months.

Interest and principal payments are paid twice a year. (principal loan payment should be divided into amounts equally distributed over the loan period, taking into account the grace period) May 5 and November 5 according to the transaction No. 3471, June 5 and December 5 according to the transactions No. 3673/ L3823 is paid

Credit support: types of support specified in the Bank's Credit Policy and Lending Regulation

Additional conditions: Lending of investment projects is carried out in case of participation of not less than 30% of the project value from the personal funds of the initiator of this project. The client's share of 30% in the form of money is not required in the project

In conclusion, foreign investments attracted to commercial banks of Uzbekistan are gaining importance in ensuring financial growth, strengthening stability and modernization of the country's banking sector. These investments not only attract the necessary capital, but also bring experience, technologies and best practices that contribute to the evolution of the sector. Through continuous reforms, a strong regulatory and legal framework and strategic cooperation, the banking industry of Uzbekistan is ready to attract foreign investments for sustainable growth and financial integration.

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