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PROBLEMS ASSOCIATED WITH INCREASING THE RETURN ON ASSETS OF COMMERCIAL BANKS

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Abstract

Increasing the profitability of commercial banks is one of the prerequisites for ensuring their competitiveness in the financial markets. Achieving a normal level of profitability necessitates a balance between liquidity and return on assets.

The article identifies urgent problems associated with increasing the profitability of assets of commercial banks of the Republic of Uzbekistan and develops scientific proposals aimed at solving these problems.

Keywords: commercial bank, assets, return on assets, loan, reserve, net profit, security, investment, interest margin, interest spread.

Introduction

In the strategy of reforming the banking system of the republic, the modernization of the provision of banking services, improving the quality of the loan portfolio and risk management, improving corporate governance and attracting managers with international practical experience, the introduction of technological solutions for assessing financial risks are identified as priority areas for reforming the country's banking system [1]. The solution of the tasks identified within the framework of these areas will ensure the liquidity and financial stability of commercial banks. This, in turn, gives rise to the need to identify urgent problems associated with increasing the profitability of assets of commercial banks, and to develop scientifically based ways to solve them.

At the same time, there are a number of urgent problems in increasing the profitability of assets of commercial banks of our republic. In particular, the return on assets is low. In addition, the high level of credit risk in banks has a negative impact on the return on assets.

Analysis of the literature on the topic

According to Zh. Sinkin, a low interest margin plays a key role in ensuring the profitability of the assets of merchant banks. Low interest margins have a strong impact on the level of competition in the loan and deposit market, based on the volume of the bank's assets, which has a strong impact on the level of return on assets [2].

According to I. Yudin's conclusion, the return on assets of merchant banks in developing countries is directly related to the level of credit risk, while as a result of the depreciation of the national currency, customers taking loans in foreign currency face the impossibility of repaying the loan, which leads to an increase in credit risk [3].

According to V. Usoskin's conclusions, the profitability of loans of merchant banks is directly related to the main risks associated with the loan portfolio, such as liquidity risks, interest rate risks, and the level of credit risk management [4].

According to N.E. Sokolinskaya, the main aspect of ensuring the quality of loan content is associated with careful monitoring of risks, the creation of well-structured loan portfolios and the possession of a high-quality database for managing lending processes [5].

According to S. Vine's research, it is important to determine the level of interest rates granted on loans organized to ensure the stability of lending and maintain profitability [6].

An analysis conducted by Zh. Isakov using econometric methods showed that an increase in the average annual interest rate by one percent for loans issued by merchant banks in the service sector leads to an increase in the yield on lending by 0.8 percent and an increase in the volume of loans granted by one percent, which leads to a decrease in the yield on lending by 1.8 percent [7].

According to B. Berdiyarov, ensuring the stability of regulatory capital in the liabilities of merchant banks is of significant importance for the growth of profitability. This is done by ensuring the stability of the ratio of the amount of liabilities of regulatory capital to the total amount of assets, which in turn ensures stability and growth of return on assets by ensuring that the growth rate of assets and liabilities corresponds [8].

Research Methodology

CAMELS rating: asset quality of commercial banks in the system from 5 percent

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It is rated on a scale of up to 50 per cent and over 50 per cent. In this case, asset quality is determined by dividing the amount of assets at risk by the total capital of the commercial bank and multiplying the result by 100 percent. Banks with an asset quality index above 50 percent belong to the fifth category and the quality of their assets is considered unsatisfactory [9].

In order for the asset quality of commercial banks to meet regulatory requirements, it is important to ensure proportionality between the growth in the amount of assets at risk and the growth of total capital. If we assume that the growth rate of risky assets lags behind the growth rate of total capital and this situation is not eliminated in a short time, then a sharp decline in the asset quality indicator is observed in a commercial bank. As a result, the bank's rating will plummet.

According to the standardized approach to credit risk assessment recommended by the Basel II standard, the higher the sovereign credit rating of a borrower, the lower the level of risk of the loan granted to him. For example, the risk level of loans issued to governments and central banks of countries with sovereign credit ratings from AAA to AA is zero, the risk level of loans issued to credit institutions in these countries is 20 percent, and the risk level of loans issued to legal entities is 20 percent [10].

When studying the issue of increasing the profitability of assets of commercial banks, expert assessment, statistical grouping, induction and deductive methods of scientific analysis were used.

In the process of analysis, official statistical data and practical data of foreign banks and the National Bank for Foreign Economic Affairs were used.

Analysis & Results

Return on assets of commercial banks is determined as a percentage of the ratio of net profit to gross assets. Therefore, ensuring the ratio between the growth rate of net profit and the growth rate of gross assets is an urgent issue of ensuring return on assets.

It should be noted that loans occupy the largest share of assets of commercial banks of the Republic of Uzbekistan. Therefore, ensuring the profitability of loans is a necessary condition for ensuring the profitability of bank assets.

Figure 1 shows that in 2017-2019, the TIF of the National Bank saw an increase in the level of return on assets, but in 2019-2021 this indicator decreased significantly.

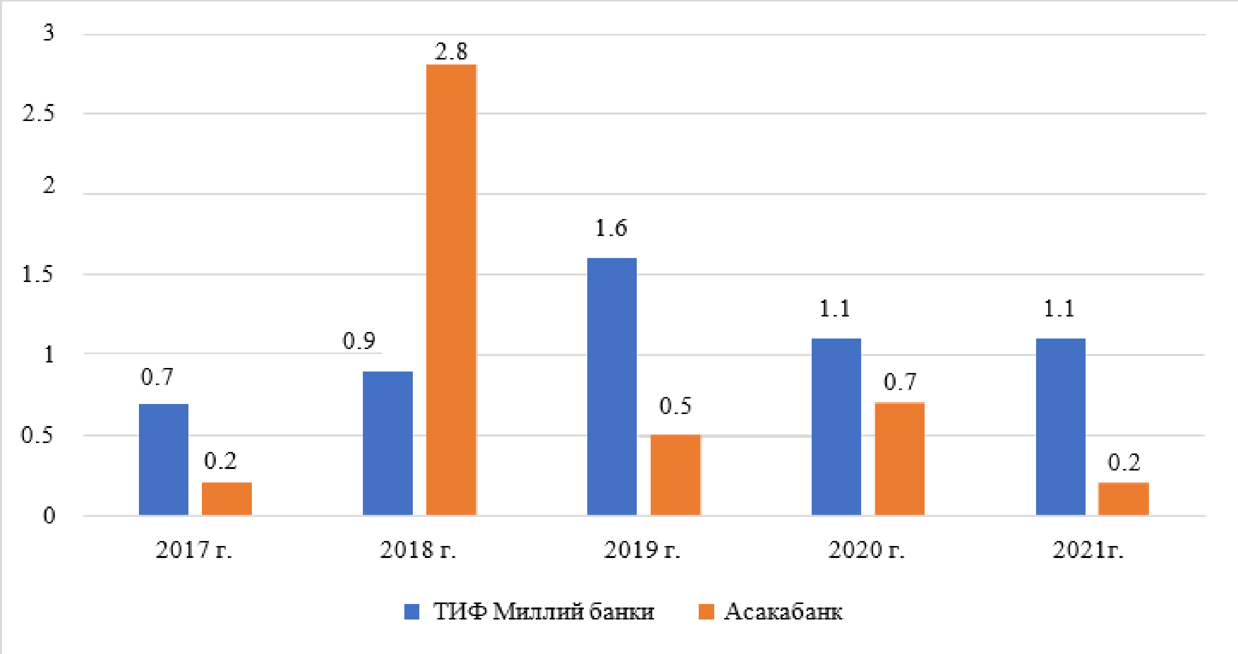

Figure 1. Return on assets in the ETF of the National Bank and Asakabank [11]

This statement suggests that in 2021, the return on assets in Asakabank decreased compared to 2018, and the analysis in the period between these years shows a significant decrease in the level of return on assets in the bank. Such situations are usually considered as a negative state in terms of increasing the return on assets in the bank.

Below, we will analyze the level and dynamics of net interest margin and income per UZS asset (Table 1).

Table 1: Net interest margin and one soum in the National Bank for Foreign Economic Affairs, rate of return on assets [12]

Percentage

Indicators	Year 2017	Year 2018	Year 2019	Year 2020	The year is 2021.
Net interest margin	0,9	1,7	2.3	3.3	**3.2**
Income per UZS asset level	**4.4**	**6.2**	**8,9**	**9,5**	**9,9**

Table 1 shows that in 2021, compared to 2017, the level of net interest margin and income per UZS asset increased in the ETF of the National Bank. This is a positive situation in terms of increasing the profitability of bank assets. However, the fact that the net interest margin during the period under review was significantly lower

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than the standard level (4.5%) is a negative situation in terms of improving the return on bank assets.

From the data presented in Table 1, it can be seen that the rate of return per one sum of assets in the ETF of the National Bank will increase in 2017-2021. Has a tendency. This, in terms of increasing the profitability of bank assets, is considered a positive situation.

Conclusions and suggestions

Analyses carried out in the process of writing a scientific article have shown that:

In the strategy for reforming the banking system of the Republic of Uzbekistan for 2020-2025, the setting of specific tasks to improve the quality of assets of commercial banks generates the need to identify current problems related to increasing the profitability of banking assets and the development of scientifically based ways to solve them.

The CAMELS rating system and the Basel-II standard reflect the methods for assessing the return on assets of commercial banks.

In 2017-2019, there was an increase in the level of return on assets in the TIF of the National Bank, but in 2019-2021 this indicator decreased significantly.

Asakabank's return on assets in 2021 decreased at a higher rate compared to 2018, and return on assets increased over the analyzed period. level Very low that it was a negative situation in terms of increasing the return on assets.

The TIF of the National Bank has a net interest margin in 2021 compared to 2017 and one level of indicators of the level of income per UZS asset increased, however, the fact that the net interest margin indicator is significantly lower than the regulatory level (4.5%) during the analyzed period is a negative situation in terms of increasing the profitability of banking assets.

In our opinion, in order to increase the profitability of assets of commercial banks of our republic, it is necessary to implement the following measures:

1. In order to ensure a balance between the growth rate of net profit of commercial banks and the growth rate of gross assets, it is first necessary to ensure a balance between the growth rate of net interest income and the growth rate of gross loans and investments. in fixed-rate securities; secondly, it is necessary to promptly remove from the balance sheets of banks the part of problem loans that has reached an acceptable threshold level; Third, it is necessary to ensure a balance between the growth rate of non-interest income and the growth rate of assets generating non-interest income.

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2. It is necessary to ensure an increase in the weight of interest income in the volume of gross income by increasing the weight of investment operations of commercial banks with securities in the volume of transactions with assets.

The level of development of investment operations of commercial banks of our republic with securities is low. As of January 1, 2022, the share of investments in securities in the total assets of commercial banks of our republic amounted to only 4.4 percent.[13].

The relatively high level of inflation and the rate of depreciation of the national currency in our republic restrain the investment attractiveness of securities. This, in turn, has a negative impact on the development of investment operations of commercial banks with securities.

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