

**ANALYSIS OF THE INVESTMENT POTENTIAL OF THE BANKING SYSTEM**

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The investment activity of commercial banks is directly related to the formation of the main objectives of investment policy, as well as the selection of the most effective ways to achieve them. The organization and management of investment activity represent a set of measures that help increase the profitability of investment assets at a certain level of risk. The distinctive feature of commercial banks' investment activity compared to other investors is that they mainly carry out investments through attracted funds rather than their own capital.

In foreign countries, the main source of financing commercial banks' investment activities is term and savings deposits attracted from customers.

In developing countries, the direct agreements between depositors and commercial banks regarding deposit resources are also discussed. For instance, if a long-term contract is opened for savings, it may negatively affect the stability of the deposit base of the bank, thus requiring the mitigation of liquidity risk. Transaction deposits are variable in nature, as customers can withdraw them within a short period. Therefore, in banking practice, transaction deposits are not considered a stable resource for commercial bankers.

In developed countries, customers' funds hold a significant share in the resource base of banks. For example, in Finland and Italy, more than 30% of total bank liabilities are formed by customer deposits (including household deposits). This figure reaches up to 80% in Japan and Israel.

“Due to the development of financial markets in advanced countries, the funds raised from the sale of securities issued by commercial banks occupy a significant share in their total resources. These resources are mainly used to finance long-term investment operations of banks.” For this reason, investments directed by banks into securities are considered essential in investment activity across many countries of the world.

In Uzbekistan, due to the underdevelopment of the financial market, commercial banks mainly participate in financing investments through long-term loans. In this process, loans allocated for a period of more than one year are classified as long-term loans, which are mainly provided to households and business entities to cover investment expenses and finance projects.

**Table 1. Volume and profitability level of investment loans of commercial banks<sup>1</sup>**

Indicators	2019	2020	2021	2022	2023
Long-term loans, bln. UZS	192,077	247,036	291,399	338,909	410,210
Share of long-term loans in total loan volume, %	91.5	89.7	89.7	86.9	87.0
Share of long-term loans in national currency, %	19.1	19.7	18.9	22.3	23.1
Share of long-term loans in foreign currency, %	7.8	5.7	5.9	6.8	8.9

According to the data of Table 1, in 2019–2023 a growth trend was observed in the long-term loans of commercial banks (an increase by 2.13 times) as well as in the profitability level of loans in national currency (from 19.1 percent to 23.1 percent). The efficiency of long-term investments of commercial banks was influenced by the refinancing rate and the inflation level. The profitability of loans issued in national currency increased by 0.8 percentage points in 2023 compared to 2022. The profitability of loans in foreign currencies also demonstrated a growth trend during 2020–2023.

As of the end of 2023, the share of long-term loans in the total loan portfolio of commercial banks amounted to 87 percent. This situation indicates the high demand of the real sector of the economy for long-term loans. It also shows the need for commercial banks to take important measures to further enhance their investment activity.

When assessing the structure of credit allocations of commercial banks to projects in various sectors of the economy, it is advisable to analyze them in terms of loan maturity. Long-term loans make up 87 percent of the credit portfolio of commercial banks. This situation, firstly, indicates the continuous development of the lending activities of commercial banks; secondly, reflects the active involvement of banks in financing investment projects; and thirdly, demonstrates the growing demand of households and business entities for commercial bank loans to finance investments.

The volume of commercial banks' investment-oriented loans is influenced by factors such as the refinancing rate, the mandatory requirements set in relation to deposit interest rates, exchange rate dynamics, interest rates on long-term loans, and the level of inflation.

Due to the reduction and differentiation of mandatory reserve requirements on time deposits of commercial banks introduced by the Central Bank of the Republic of Uzbekistan, opportunities were created to strengthen the resource base of commercial banks. As a result, a multiplicative expansion of credit resources occurred.

<sup>1</sup> Compiled by the author based on the data of the Central Bank of the Republic of Uzbekistan

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