

THE WAYS TO IMPROVE CURRENCY OPERATIONS OF THE BANKS AT THE FOREIGN EXCHANGE MARKET IN UZBEKISTAN

Yakubova Saida

Independent researcher of Tashkent State University of Economics

Workplace: JSC "Uzbek Republican Currency Exchange"

Scientific title: Mechanisms for improving currency operations

E-mail address: s.yakubova@uzrvb.uz

Abstract: This article describes the current problems related to the improvement of the mechanisms of foreign exchange operations in Uzbekistan and the appropriate ways to solve them. Also, the article reflects the analysis of the current situation and existing problems with currency operations at the world currency markets, the domestic currency market of Uzbekistan, as well as in the commercial banks and Uzbek republican currency exchange.

Keywords: currency, foreign exchange market, spot, forward, option, futures, currency swap, currency risk, hedging, open currency position, inflation, interest rate, trade balance, devaluation expectation, deficit, money supply, REPO, diversification.

INTRODUCTION

In 2023, the volume of the world currency market reached 805 billion US dollars. Looking ahead, IMARC Group predicts that the global foreign exchange market will reach \$1,466 billion by 2032, with an annual growth rate of 6.92 percent over 2024-2032. Such situations are caused by the increasing integration of modern technologies in international trade areas, the globalization of international business, which creates demand for currency exchange services, as well as the increasing influence of various economic factors such as inflation, interest rates, and the growth of the gross domestic product.

If we analyze the distribution of operations carried out today in the world currency market by types, then currency swap, direct forward and currency swap and currency options occupy the main places. Currency swap transactions are the largest segment of these transactions.

The fact that currency swap operations have the highest share is explained by the need for liquidity and risk management in international trade. Companies engaged in multi-currency transactions use currency swap transactions to reduce the risk of exchange rate fluctuations. Also, long-term currency swaps provide stability and clear expectations for financial planning. Direct forward operations and currency swaps are important instruments used in hedging foreign exchange risks, which are related to the need to manage and fix future exchange rates. As international trade has a complex structure and cross-border investment flows increase, currency options in turn protect against the risk of negative exchange rate changes. Finding a solution to volatile markets continues to increase the importance of currency options trading today.

The adoption of Decree No. PF-5177 of the President of the Republic of Uzbekistan dated September 2, 2017 "On the first measures to liberalize the currency policy" is equal to the fundamental reform of the current currency regulation system, the liberalization of the currency policy, and the implementation of foreign trade activities for all business entities was aimed at creating conditions. The active phase of the banking sector reform, which began in 2017, made a significant contribution to the liberalization of the foreign exchange market.

On October 22, 2019, in connection with the adoption of the new version of the Law of the Republic of Uzbekistan "On Currency Regulation" No. ORQ-573, the existing types of currency transactions in practice were covered and the norms in the legislation were reduced to the maximum.

As a result of the reforms implemented in Uzbekistan regarding the liberalization of the foreign exchange market, the volume of foreign currency transactions at the currency exchange of the Republic of Uzbekistan in 2022 reached 30,07 billion. If it is US dollars, in 2023 this indicator increased to 23.31% and reached 37.08 billion. US dollars.

LITERATURE ANALYSIS AND METHODS

The issue of improving the mechanisms of currency operations was studied by foreign economists as an object of scientific research and appropriate scientific conclusions and practical recommendations were formed.

According to the interpretation of L. Krasavina, there are three types of currency transactions (spot transactions, term currency transactions, and swap transactions), and there are the following three forms of term currency transactions:

- * forward operations;
- * transactions with currency options;
- * transactions with currency futures.

This categorization proposed by L. Krasavina is of practical importance. The reason for this is that, firstly, the absolute majority (85.0-90.0%) of foreign exchange transactions worldwide pass through commercial banks, and banks use the above-mentioned three types of foreign exchange transactions; secondly, the swap operation is based on the combination of spot and forward operations and is an independent type of currency operation.

According to the conclusion of M. Eskindarov and E. Zvonova, "the development of spot operations of commercial banks directly depends on two factors, that is, the volume of open currency positions and the lower limit of the margin".

I. Vasileva and O. Khmyz conclude based on the results of their scientific research that "the main currencies involved in currency swap transactions in the international currency markets are the US dollar and the euro. The nominal exchange rates of these currencies are currencies with a high level of volatility of the nominal exchange rate worldwide, which naturally repeats the trends determined by global changes in the currency swaps market and the world currency markets in general.

According to N. Jumaev, at the modern stage of development of the banking system of the Republic of Uzbekistan, the instability of the market rates of deposits and loans in the national currency hinders the development of forward operations. The difference between the average interest rate of deposits in the evaluation currency and the average interest rate of loans in the transaction currency determines the level of premium and discount.

Interest rates on deposits in national currency are significantly higher in our republic. This is explained by the high level of inflation and the high cost of resources attracted by commercial banks. For example, in 2022, the annual rate of inflation in our republic was 12.3 percent.

According to the conclusion of T. Bobakulov and U. Abdullaev, correct assessment of unrealized profit and unrealized loss and assessment of the impact levels of factors affecting them are important in ensuring the efficiency of forward operations of commercial banks. This is explained by the possibility that one of the parties participating in the forward contract will not be able to fulfill the obligation provided for in the contract.

RESEARCH METHODOLOGY

According to the results of the analysis, there are problems related to the improvement of currency operations in Uzbekistan. A systematic approach, data summarization, situational and structural methods were used during the analysis.

ANALYSIS AND RESULTS

Ensuring the uninterrupted functioning of the world currency markets throughout the day, the development of the banking system in developed countries, and the rapid development of the banking system in countries such as China and India are important institutional bases for the implementation of currency operations.

Table 1

Regional distribution of operations with currency options and currency futures in the world currency markets, in percent

| Regions | 2017y. | 2018y. | 2019y. | 2020y. | 2021y. |
|--------------------|--------|--------|--------|--------|--------|
| Asia | 55.9 | 82.5 | 85.6 | 86.4 | 89.8 |
| Europe | 16.0 | 4.7 | 5.5 | 4.4 | 2.7 |
| Latin America | 2.9 | 1.5 | 1.2 | 0.9 | 5.5 |
| North America | 25.2 | 11.3 | 7.7 | 8.3 | 2.0 |
| Operations - total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

From the data of Table 1, it can be seen that in 2017-2021, the share of foreign exchange operations carried out in the Asian region with currency options and currency futures in the total volume of operations carried out with currency options and currency futures in the world currency markets tended to increase. Moreover, the level of this indicator was very high in 2017-2021. This is explained by the fact that the volume of financial operations in Asian countries such as China and India is growing at a high rate.

From the data presented in Table 1, it is clear that the weight of foreign exchange operations carried out in Europe and North America with currency options and currency futures in the total volume of operations with currency options and currency futures in the world currency markets tended to decrease in 2017-2021. This is explained by the fact that during this period, the currency operations carried out in the Asian region with currency options and currency futures tend to increase in the total volume of operations carried out with currency options and currency futures in the world currency markets.

Table 2

Composition of Barclays Bank (Great Britain) term currency operations, in percent

| Indicators | Years | | | | |
|-------------------------------------|--------|--------|--------|--------|--------|
| | 2017y. | 2018y. | 2019y. | 2020y. | 2021y. |
| Forward operations | 54.8 | 51.4 | 64.6 | 70.9 | 71.4 |
| Currency options | 33.8 | 40.7 | 28.3 | 18.5 | 20.4 |
| Currency futures | 11.0 | 7.4 | 6.1 | 9.3 | 6.7 |
| Other operations | 0.4 | 0.5 | 1.0 | 1.3 | 1.5 |
| Forward currency operations - total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

From the data presented in Table 2, it is clear that in 2017-2021, forward operations took a relatively high share in the total volume of Barclays Bank's term currency transactions. This is explained, firstly, by the wide fluctuation range of nominal exchange rates because all leading currencies have a free-floating regime, and secondly, by the fact that forward operations are an important source of income for commercial banks.

From the data presented in Table 2, it is clear that in 2017-2021, Barclays Bank's share of transactions with currency options in the total volume of term currency transactions tended to decrease. This is explained by the following reasons:

* that the demand for forward transactions by bank clients increased during the analysis period;

* that currency options have a high-risk level for commercial banks (the Basel Committee assigned a 100% risk level to the number of options issued by commercial banks).

From the data presented in Table 2, it can be seen that in the period 2017-2021, in the total volume of Barclays Bank's term currency operations, operations with currency futures occupied a relatively small weight. This is explained by the high level of payments made to the Clearing House for currency futures.

Table 3

Amounts of foreign currency demand and foreign currency supply in the internal currency market of the Republic of Uzbekistan, mln. USD

| Indicators | 2018 y. | 2019 y. | 2020 y. | 2021 y. | 2022 y. |
|-----------------------------|---------|---------|---------|---------|---------|
| Demand for foreign currency | 11 353 | 15 537 | 19 488 | 26 091 | 36 606 |
| Offer of foreign currency | 5 760 | 9 757 | 11 824 | 18 439 | 27 687 |

From the data of Table 3, it can be seen that the amount of foreign currency supply in the domestic currency market of the Republic of Uzbekistan had an increasing trend in 2018-2022.

According to the official statistics of the Central Bank of the Republic of Uzbekistan:

* In 2022, the share of funds purchased in the domestic currency market (conversion) among the sources of import financing was 58 percent, import financing at the expense of own funds in foreign currency was 32 percent, and financing at the expense of loans in foreign currency was 10 percent;

* In 2022, the main part of foreign currency in the domestic currency market (56.6%) will be the import of equipment, goods, and raw materials for production, 18.8% will be the repayment of foreign loans, 20.8% will be the import of consumer goods and pharmaceutical products, 2.1% repatriation of income of foreign investors and the remaining 1.7% was purchased for other purposes.

Table 4

Foreign economic activity Composition of currency operations of the National Bank of Uzbekistan (in percent)

| Types of currency transactions | 2018 y. | 2019 y. | 2020 y. | 2021 y. | 2022 y. |
|--------------------------------|---------|---------|---------|---------|---------|
| Spot operations | 97.7 | 100.0 | 96.3 | 100.0 | 98.7 |
| Forward and swap transactions | 2.3 | 0.0 | 3.7 | 0.0 | 1.3 |
| Currency transactions - total | 100.0 | 100,0 | 100.0 | 100.0 | 100.0 |

From the data of Table 4, it can be seen that in 2018-2022, spot operations took a very high share in the total volume of currency operations of National bank of Uzbekistan. This is explained by the fact that National bank of Uzbekistan has not developed forward and swap operations.

It is clear from Table 4 that National bank of Uzbekistan did not have forward and swap operations in 2019 and 2021. This is a negative situation from the point of view of the development of currency operations of this bank.

The absence of forward and swap operations prevents National bank of Uzbekistan from improving its practice of managing open currency positions.

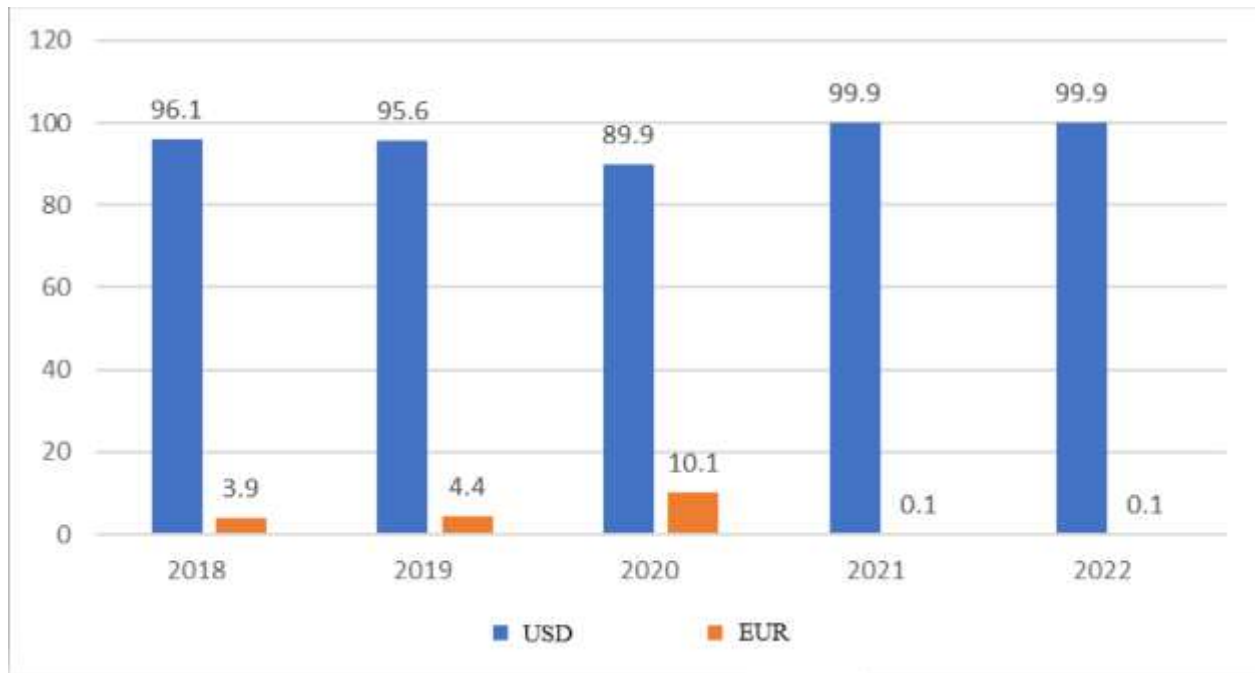


Figure 1. Currency composition of currency operations carried out at the currency exchange of the Republic of Uzbekistan, in percent.

From the data presented in Figure 1, it is clear that the absolute main part (99.9%) of the foreign exchange transactions carried out at the currency exchange of the Republic of Uzbekistan are currency transactions carried out in USD.

It is clear from the data presented in the picture that the weight of currency transactions made in euros in the total volume of currency transactions made at the currency exchange of the Republic of Uzbekistan tended to increase in 2018-2020. However, in 2021, the level of this indicator decreased sharply compared to 2020.

The main reason for the fact that most of the foreign exchange transactions in the currency exchange of the Republic of Uzbekistan are made in USD is the lack of diversification of foreign currency reserves of economic entities and banks.

DISCUSSION

While the share of legal entities in the total volume of demand for foreign currency in the internal currency market of the Republic of Uzbekistan decreased by 15.8 percentage points in 2022 compared to 2018, the share of individuals in the total volume of demand for foreign currency in the internal currency market of the Republic of Uzbekistan decreased by 15.8 percentage points in this period increased.

As of December 31, 2022, the share of legal entities in forming foreign currency supply in the domestic currency market of Uzbekistan was 53.2 percent, while the share of individuals was 46.8 percent.

In 2018-2022, spot operations took a very high place in the total volume of currency operations of TIF National Bank. This is explained by the fact that TIF National Bank has not developed forward and swap operations.

The absolute main part (99.9%) of the foreign exchange transactions carried out at the currency exchange of the Republic of Uzbekistan are currency transactions carried out in USD. This, in turn, is explained by the lack of diversification of currency reserves of economic entities and banks.

CONCLUSIONS

To create the necessary conditions for improving the mechanisms for carrying out fixed-term currency transactions by ensuring the stability of the nominal exchange rate of the national currency, first of all, it is necessary to eliminate the factors that put pressure on the nominal exchange rate of the national currency (a large deficit of the country's foreign trade balance, high inflation; secondly, it is necessary to ensure the proportionality between the demand for money and the supply of money by improving the practice of using instruments of monetary policy.

To ensure the stability of the market rate of deposits in the national currency and increase the currency liquidity of banks, first of all, to solve the problem of unbalanced liquidity that occurs in commercial banks where the transaction is a market participant during the day, it is necessary to establish 1-day interest-free lending to them and ensure the; second, setting the mandatory Reserve rate (18%) of the country's central bank against deposits of commercial banks in foreign currencies based on the current level of the SOFR (Secured Overnight Financing Rate) rate in the US dollar and by canceling the withdrawal of the number of obligations accrued in foreign currency from the representative account "Nostro" in the national currency, it is necessary to increase the currency liquidity of the country's commercial banks.

In the Republic of Uzbekistan, the existence a huge difference between the average annual interest rate of deposits in the national currency - soum, which serves as the evaluation currency in future currency transactions, and the average interest rate of loans in leading foreign currencies, which are the currency of the transaction, does not allow to improve the mechanisms of currency transactions.

To fully implement conversion operations in leading currencies (US dollar, euro, Japanese yen, pound sterling, Swiss franc, Canadian dollar, Australian dollar), first of all, it is necessary to establish reserves in leading currencies by increasing the volume of currency swap and GOLD swap operations. ; Secondly, it is necessary to use the following possibilities for the diversification of currency reserves:

- * revision of the currency structure of foreign trade transactions of companies;
- * increase the level of diversification of foreign currency reserves of commercial banks using forward currency contracts and currency swap contracts;
- * revision of the foreign currency composition of the state's foreign debt.

The absolute main part (more than 90 percent) of conversion operations carried out in the currency exchange of the Republic of Uzbekistan in 2018-2022 corresponded to the contribution of operations carried out in US dollars.

Therefore, increasing the volume of foreign exchange operations does not allow for creating the necessary conditions for increasing the effectiveness of foreign exchange risk management.

The main reason for the fact that the absolute majority of conversion operations carried out in 2018-2022 at the currency exchange of the Republic of Uzbekistan are carried out in USD is the low level of diversification of foreign exchange reserves of enterprises, commercial banks, and the state.

REFERENCES

1. IMARC Group: Market Research Reports. Foreign Exchange Market Report by Counterparty (Reporting Dealers, Other Financial Institutions, Non-financial Customers), Type (Currency Swap, Outright Forward and FX Swaps, FX Options), and Region 2024-2032 (<https://www.imarcgroup.com/foreign-exchange-market>).
2. Decree of the President of the Republic of Uzbekistan dated September 2, 2017 No. PF-5177 "On the first measures to liberalize the currency policy". www.lex.uz.
3. Law of the Republic of Uzbekistan dated 22.10.2019 "On Currency Regulation" No. ORQ-573. www.lex.uz.
4. Central Bank of the Republic of Uzbekistan. Statistical Bulletin - 2023 - B.39.
5. Krasavina L.N. International monetary relations. – M. Yurayt, 2016. – 543 p.
6. Eskindarov M.A., Zvonova E.A. International monetary relations. Textbook. – M.: KNORUS, 2018. – P. 360.

7. Vasilyeva I. P., Khmyz O. V. Theoretical aspects of the functioning of the foreign exchange market // Financial business. – Moscow, 2009. – No. 2. P. 23 – 33.
8. Jumaev N.Kh. Improving the methodology of regulating currency relations in Uzbekistan. I.F.D. science narrows take three. destiny eat diss. autoref. - Tashkent, 2008. - B. 24.
9. Bobakulov T.I., Abdullaev U.A. International currency-credit relations. Textbook. - Tashkent: Sano-standard, 2014 - B. 107-108.
10. www.futuresindustry.org.
11. www.barclays.com
12. www.cbu.uz
13. TIF was compiled based on the financial reports of the National Bank for 2019-2023.
14. It was compiled based on the information from the annual reports of the Republican Currency Exchange for 2019-2023.