



## **POSSIBILITIES OF DEVELOPMENT OF URGENT CURRENCY OPERATIONS OF COMMERCIAL BANKS**

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**Abstract:** Urgent foreign exchange operations (forward operations, operations with foreign exchange options and foreign exchange futures) of commercial banks are widely used methods of protecting the foreign exchange reserves of companies from foreign exchange risk. At the same time, urgent foreign exchange transactions are an important source of income for commercial banks.

The article identifies the problems associated with the development of urgent foreign exchange transactions of commercial banks in Uzbekistan and developed scientific proposals aimed at solving these problems.

**Key words:** commercial bank, forward, currency option, currency futures, exchange rate, currency risk, interest rate, devaluation.

### **Introduction**

Ensuring the development of foreign exchange transactions of commercial banks is one of the priority directions for the development of foreign exchange relations in Uzbekistan. In accordance with the Decree of the President of the Republic of Uzbekistan No. 5177 of September 2, 2017 "On priority measures to liberalize foreign exchange policy", increasing the role of market instruments in the use of foreign exchange resources, creating equal competitive conditions in the foreign exchange market for all economic entities, creating equal competitive conditions for foreign exchange market for all economic entities are the priority areas of liberalization of foreign exchange policy [1, p.32]. In turn, the increasing role of market instruments in the use of foreign exchange resources necessitates the development of urgent foreign exchange transactions of commercial banks. Since, urgent foreign exchange transactions of banks are the main tools for managing foreign exchange resources of companies and the banks themselves.

However, at present there are a number of problems associated with the development of urgent foreign exchange transactions of commercial banks in Uzbekistan. In particular, in the practice of banks of the republic there are no operations with currency options and futures.

### **Literature review**

The issues of the development of foreign exchange transactions of commercial banks have been widely studied by foreign scientists-economists and the corresponding scientific conclusions have been formulated.

According to M. Eskindarov and E. Zvonova, four types of futures contracts - forwards, futures, options and swaps form the derivatives market, and here the derivatives rate is based on the rate of the underlying asset and derivatives, unlike the underlying asset, have a limited period existence, defined by the contract [2, p.370].

According to A. Burenin, with the help of a forward transaction, a contract participant gets the opportunity to insure against unfavorable changes in the exchange rate, at the same time, a forward contract can be concluded with the aim of playing on the difference in rates [3, p. 71].



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According to the Black-Scholes model, the key element in determining the value of an option is the expected volatility of the underlying asset. Depending on the fluctuation of the asset, the price for it increases or decreases, which directly proportionally affects the value of the option. Thus, if the option value is known, then the level of volatility expected by the market can be determined [4, p. 639].

According to J. Zinki, if for any reason a bank cannot hedge within the balance sheet, it can use off-balance sheet hedging methods, that is, derivatives in foreign currencies - futures, forwards, options [5, p. 807].

According to N. Djumaev, the country remains unstable in market rates on deposits and loans. This negatively affects the stability of the forward rates. Interest rates on deposits and loans are a factor that determines the level of interest and discount. Premium and discount are the only factors that distinguish the forward rate from the spot rate [6, p. 28].

### **Materials and methods**

In Uzbekistan, urgent foreign exchange transactions of commercial banks are regulated by the Law of the Republic of Uzbekistan "On Foreign Exchange Regulation" and the current instructions of the Central Bank of the Republic of Uzbekistan.

According to the Law of the Republic of Uzbekistan "On Currency Regulation":

- international currency transactions are subdivided into current international transactions and capital flow transactions;

- current transactions include all payments on current transactions of the balance of payments;

- capital movement operations include all international (cross-border) foreign exchange transactions that are not current international transactions [7].

According to the instruction of the Central Bank of the Republic of Uzbekistan "On the rules for carrying out currency transactions in the Republic of Uzbekistan":

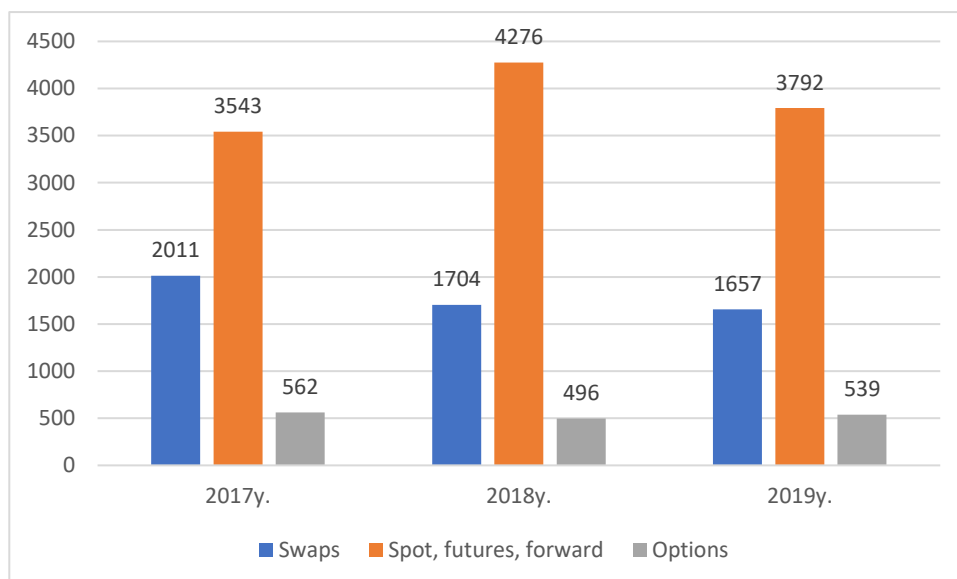
- the purchase and sale of foreign currency by residents and non-residents for current international transactions, for direct investments and for the repatriation of income of non-residents are carried out without restrictions;

- when servicing loans and leasing in foreign currency, when repatriating profits, dividends and other income of foreign investors, servicing banks have the right to require additional documents confirming the reliability of these operations [8, p. 1242].

When writing the article, research methods such as grouping, analysis and synthesis and the method of expert evaluation were used.

### **Discussion**

It should be emphasized that in developed countries, commercial banks carry out all types of foreign exchange transactions. Especially, urgent foreign exchange transactions and "swap" operations have been widely developed.



**Fig. 1. Volume of foreign exchange transactions of Bank of America (USA), million dollars [9, p. 116; 123]**

As can be seen from Fig. 1, in 2016-2018 the volume of spot, futures and forward transactions of Bank of America had an upward trend, which is explained by the increase in the volume of spot and forward transactions of the bank's clients in this period.

The data shown in Fig. 1 show that in 2019 compared to 2018, the volume of swap and spot transactions, futures, and forward decreased, while the volume of transactions with foreign exchange options increased.

The decrease in Bank of America swaps in 2019 compared to 2018 is explained by the volatility of the world's leading currencies and the low yield of the currency swap.

**Table 1**

**The structure of currency transactions of the National Bank for Foreign Economic Affairs (Uzbekistan) inpercents [10, p. 9]**

Type of currency transaction	2017 y	2018 y	2019 y
Spotoperations	100,0	97,7	100,0
ForwardandSwapTransactions	0,0	2,3	0,0
Currencytransactions - total	100,0	100,0	100,0

As can be seen from the data in Table 1, in the National Bank for Foreign Economic Affairs in 2017 and 2019, there were no urgent foreign exchange transactions and swap transactions. In 2018, forward transactions and swaps together occupied a very low share in the total volume of the Bank's foreign exchange transactions.

There are no operations with currency options and currency futures in the banks of Uzbekistan.

In my opinion, the underdevelopment of urgent foreign exchange transactions of commercial banks in Uzbekistan is explained by the following reasons:

1. High level of devaluation of the national currency.



The annual level of devaluation of the national currency - the soum against the US dollar was:

- \* in 2018 - 2.7%;
- \* in 2018 - 14.0%;
- \* in 2020 - 10.2% (11).

2. High level of deposits in national currency compared to interest rates of loans in foreign currencies (table 2).

**Table 2**

**The rate in LIBOR US dollars and the average annual interest rate of time deposits in the national currency of Uzbekistan,% [12]**

	2017y.	2018y.	2019y.
12-month LIBOR USD	1,79	2,76	1,54
Average annual interest rate of deposits in national currency	12,4	22,2	16,6

As can be seen from the data in Table 2, the average annual interest rate of term deposits of commercial banks in Uzbekistan in national currency is high and volatile compared to the market rate of loans in US dollars.

### Conclusion

Urgent foreign exchange operations of commercial banks (forward operations, operations with foreign exchange options, foreign exchange futures) are important instruments for hedging foreign exchange risks and a source of income for commercial banks.

The increase in the volume of spot, futures and forward operations of Bank of America in the analyzed period was explained by the increase in the volume of spot and forward operations of the bank's clients, and the decrease in swap operations by the volatility of the exchange rates of the world's leading currencies and the low profitability of swap operations.

The low level of development of foreign exchange transactions of commercial banks in Uzbekistan is explained by the following reasons:

- no transactions with currency options and currency futures;
- high level of devaluation of the national currency;
- the presence of a large difference between the interest rates of deposits in national currency and loans in the currency of the transaction.

In our opinion, to ensure the development of urgent foreign exchange transactions of commercial banks in Uzbekistan, it is necessary to take the following measures;

1. In order to develop forward foreign exchange transactions of domestic commercial banks, it is necessary, firstly, to increase the level of diversification of foreign exchange reserves of banks by increasing the volume of forward transactions on the purchase of currencies in the pair "dollar-euro", "dollar-pound sterling", "dollar yen "And" "dollar-Swiss franc"; second, to compensate for the loss in the cost of loans in the national currency due to the devaluation of the



national currency by selling repaid loans in foreign currencies under a forward contract; third, it is necessary to increase the volume of non-deliverable forward contracts.

A non-deliverable foreign exchange forward contract is an agreement to buy or sell currency at a specified time at a pre-negotiated rate. However, this forward is not calculated for the entire volume of currency, but only for the exchange rate difference.

A non-deliverable forward foreign exchange contract is a speculative instrument used short-term to generate profits or to hedge foreign exchange risks on long positions.

2. It is necessary to ensure low volatility of the nominal exchange rate of the national currency and a low level of interest rates on deposits in the national currency by:

- ensuring the effectiveness of the application of the inflation targeting regime;
- elimination of the negative consequences of macroeconomic indicators (state budget deficit, negative foreign trade balance, external debt) on the stability of the nominal exchange rate of the national currency;
- improving the mechanisms for using the instruments of the loan capital market;
- establishing the optimal range of the interest rate corridor of the Central Bank.

Currently, the Central Bank of Uzbekistan does not have a discount policy, as a result of which the effectiveness of the Central Bank's refinancing policy is reduced. This is because discount policy is a key way to ensure the effectiveness of the refinancing policy of Central Banks. For example, the US Federal Reserve System (FRS) actively influences the reserves, the monetary base and the money supply by means of a discount policy. At the same time, the FRS provides commercial banks with three types of discrete loans: primary, secondary and seasonal loans. Primary loans are provided to reliable banks at a discount rate. Secondary discount loans are provided to banks experiencing liquidity problems. The interest rate on these loans is 50 basis points higher than the discount rate. The penalty nature of the interest rate is due to the lower reliability of the borrowers. Seasonal discount loans serve the needs of a limited number of small banks during vacations or agricultural work, when the influx of deposits is seasonal [13, p. 486-487].

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