UZBEKISTAN'S BANKING SYSTEM AND ITS ROLE IN IMPLEMENTING THE ANTI-CRISIS PROGRAM

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1. Current State and Development Trends in Uzbekistan's Banking System

Uzbekistan currently has a dual banking system which consists of the Central Bank and commercial banks.

As of 1 January, 2009, Uzbekistan's banking system has 30 commercial banks, which include 3 state banks, 11 joint-stock commercial banks, 5 commercial banks with a share of foreign capital, and 11 private banks (the share of physical entities in the authorized capital of these banks is higher than 50%).

During its first years of independence, Uzbekistan did not have a special law on the Central Bank. The banking system functioned in compliance with the Law on Banks and Banking Activity adopted on 15 February, 1991 (1 September, 1991 is the day the country gained its independence). This law was improved by introducing various amendments and addenda into it, thus creating a legal foundation for establishing the Central Bank of Uzbekistan (CBU) based on the regional division of the U.S.S.R. State Bank.

At the initial stage of the country's economic reform, the CBU performed such functions as servicing the government's accounts, controlling the activity of commercial banks, and organizing and managing the national payment system. But it did not issue money, since at that time Uzbekistan did not have its own national currency.

Introduction of the national currency, the soum, into circulation required conducting an independent monetary policy and presumed the need for intensifying the reforms in the financial sector. In addition, it became obvious that it was impossible to define the legal status, goals, and tasks of two entirely different institutions—the CBU and commercial banks—within the framework of one law. These factors made it necessary to regulate the activity of the CBU by means of a separate law.

Keeping in mind the proposals and recommendations of international financial institutions, foreign banks, and independent experts, the CBU drew up the draft of a Law on the Central Bank. This draft law was openly and extensively discussed by specialists, academic economists, and experts, who supplied numerous proposals and comments. Finally, on 21 December, 1995, at a regular session of the Olii Majlis (the country's parliament), the Law on the Central Bank of the Republic of Uzbekistan was adopted.

According to Article 1 of this law, the CBU is a legal entity and all of its property is in federal ownership. This article also enforces its economic independence: "The Central Bank is an economically independent institution that shall cover its expenses with its own revenues."

According to Article 3, the main goal of the CBU is to ensure the stability of the national currency. The main tasks are:

— to form, adopt, and implement monetary policy and currency regulation policy;

— to set the rules to ensure an efficient payment system in the country;

— to license and regulate banking activity and the activity of credit unions and lombards, to supervise banks, credit unions, and lombards, and to license the production of certified securities;

— to keep and manage the country's official international reserves, including federal reserves by agreement;

— to manage, along with the Ministry of Finance, cash execution of the state budget.

It is important to emphasize that this law ensures the political and economic independence of the CBU. According to Article 6, the Central Bank shall independently make decisions within the limits of its competence. The state shall not be liable for the obligations of the CBU and the CBU shall not be liable for the obligations of the state.

It must be emphasized that certain factors interfere with the CBU performing its functions. For example, an increase in price for the products and services of natural monopolies promotes an increase in inflation and has a negative effect on the stability of the national exchange rate. This factor is not under the direct control and influence of the CBU.

The CBU draws up and carries out its own monetary policy. In compliance with Article 24 of the Law on the Central Bank of the Republic of Uzbekistan, the CBU may establish goals for changing one or several of the monetary indices.

The principal tools of the CBU's monetary policy are the following:

1. Refinancing policy.
2. Required reserves policy.
3. Open market policy
4. Monetary policy.
5. Deposit policy.

Within the framework of its refinancing policy, the CBU offers centralized loans to commercial banks secured against the following assets:

— gold, foreign currency, and currency and other valuables that belong to the category of international reserves;

— government liabilities and other debt instruments guaranteed by the government;

— assets deposited in the Central Bank and acceptable for its asset depositories that are permitted for buy-sale or other transactions of the Central Bank;

— commercial bills of exchange, the payment of which is under bank guarantee.

CBU loans are issued at discount rates. It independently establishes the interest rates for its transactions.

Until mid-1994, the credit policy of the CBU was relatively soft and centralized loans were used not only to create and develop vitally important branches of the economy, but also to provide state enterprises with circulating capital. In the second half of 1994, the nature of the refinancing policy changed. It was oriented toward maintaining the level of the monetary indices and achieving and maintaining macroeconomic stability.[1]

Some of the acquired resources of Uzbekistan's commercial banks are kept in the CBU in the form of required reserves. The following types of acquired resources of commercial banks are not included in the required reserve ratio:

— interbank loans received;

— household deposits.

On 1 September, 2007, the required reserve ratio for deposits in the national and foreign currency were unified and established at a level of 13%. On 1 November, 2008 the standard required reserve ratio was raised by two percentage points.

Within the framework of the open market policy the CBU can buy and sell state securities in the open market, as well as the debt securities they issued themselves. But it cannot use operations in the open market for any level of budget financing, or buy state securities during their initial placement. The CBU board of directors determines the limit of open market operations.

At present, the CBU uses state securities (government short-term bonds and treasury notes) as the targets for open market transactions.

Since 2005, Uzbekistan's state budget has been executed with a surplus. Due to this, the amount of state securities issued remains insignificant. This keeps a control on the increase in number of open market transactions carried out by the CBU.

[1] M.B. Nurmurodov, *Monetarnaia politika i bankovskaia sistema Uzbekistana v usloviiakh glubokikh strukturnykh preobrazovanii. Makroekonomicheskie problemy perekhodnogo perioda v Uzbekistane. Problemnye issledovaniia v ekonomike,* Mir ekonomiki i prava, Tashkent, 1998, p. 223.

Within the framework of the CBU's monetary policy, the following currency transactions are carried out:

—spot intervention;

—servicing the government's external debt;

—managing the official international reserves.

The U.S. dollar is a means of spot intervention. Spot intervention is carried out using the resources of the Consolidation Fund.

The government's main accounts have been opened on the CBU's balance. It services the government's foreign debt and carries out payments.

In most countries, reserves belong to the central bank, that is, they are reflected on its balance, and the final decisions on reserve management are made within its management structure. But there are several examples to the contrary (the U.S., Great Britain, and Japan), where reserves technically belong to the government and the final decisions on their management are also made by the government (usually by the Treasury or the Ministry of Finance).

For any country, a multitude of factors determine the choice between the two approaches. The current situation is possibly the most important of these factors: if the structure has already been formed and is working properly, there is no real need to change it. In addition, the main objectives for keeping reserves play an important role in determining the institutional structure. If reserves are largely used for monetary policy, it is expedient to transfer their management functions to the central bank. On the contrary, if they are kept primarily for hedging the government's obligations in foreign currency, the Ministry of Finance will claim the right to own these resources.

However, regardless of the right to own reserves, they are almost always controlled by the central bank either as the owner or as a government agent. An exception to this rule is when the reserves, or some of them, are part of an investment fund; in such cases, the authorities often prefer to create a specialized structure for managing them.

At the same time, the government usually makes the most urgent decisions concerning national currency (exchange rate policy, carrying out intervention, joining currency unions, and so on) directly related to reserve management. In such cases, the right to ownership of the reserves is considered less important than the need for a coordinated policy between the government and the central bank.

The CBU draws the temporarily free monetary means of commercial banks into its deposit accounts. In 2008, the average monthly volume of the CBU's deposit transactions amounted to 1,222 billion soums. In addition, it uses the balance on government accounts as a facility for its deposit transactions.

As we can see from the data presented in Table 1, in 2004-2006 the CBU's refinancing policy was expansionist in nature, that is, the refinancing rate tended to drop. This led to a decrease in the interest rate on commercial bank loans issued in the national currency. During this time, the average annual interest rate of short-term commercial bank loans in the national currency dropped by 1.8 percentage points.

In 2006-2008, the CBU refinancing rate did not change—it remained at a level of 14% per annum. This was due primarily to the need to keep the inflation rate within the range of 6-8% per annum.

The drop in interest rate on commercial bank loans within the period under review led to an increase in the volume of loan deposits. In 2008, commercial bank loan deposits increased by 178.4% compared to 2004.

As we can see from Table 1, in 2004-2007, there was a decrease in the required reserves rate of the CBU. This made it possible to increase the volume of acquired deposits. But at the end of 2008, the required reserves rate rose by 2.0 percentage points, which could lead to a drop in bank liquidity and in interest rates paid on short-term and savings deposits.

In 2004-2008, due to the moderate monetary and fiscal policy, it was possible to reduce the government's external debt. The sum of the positive balance of foreign trade transactions also significantly increased. All of these factors are helping to swell the foreign currency supply in the internal market and lower the devaluation level of the national currency.

In compliance with the anti-crisis program drawn up in Uzbekistan on the initiative of the country's president and in the conditions of the falling demand in the world market, support of domestic

Table 1

Dynamics of Monetary Indicators in Uzbekistan[2]

No.	Monetary Indicators	At the End of the Fiscal Year				
		2004	2005	2006	2007	2008
1	Annual inflation level, %	3.7	7.8	6.8	6.8	7.8
2	Annual refinancing rate, %	18.8	16.0	14.0	14.0	14.0
3	Required reserve rate on deposits in national currency, %	20.0	15.0	15.0	13.0	15.0
4	Government's external debt in relation to the GDP, %	37.3	31.3	23.1	17.0	14.8
5	Average annual interest rate on short-term loans in national currency, %	21.2	18.8	19.4	18.5	16.4
6	Average interest rate per annum on household short-term deposits in national currency	37.9	34.5	28.7	23.1	17.4
7	Nominal exchange rate of national currency in relation to 1 doll., in soums	1,058.0	1,180.0	1,240.0	1,290.0	1,393.0
8	Total volume of loan deposits of commercial banks, in billion soums	3,572.2	3,853.3	4,104.2	4,777.6	6,372.0
9	Total sum of commercial bank deposits, in billion soums	1,272.2	1,688.7	2,544.5	3,829.2	5,771.6

[2] The table was compiled by the authors on the basis of statistics of the Central Bank of the Republic of Uzbekistan.

producers by stimulating demand in the internal market was to play the key role in retaining the high rates of economic growth. In these conditions, monetary policy aimed at stimulating internal demand, in our opinion, requires the effective application of a cheap money policy. The relatively low and stable interest rates of bank loans are helping to increase the volume of commercial bank loan deposits in the real sector of the economy. This in turn is giving rise to the need to strengthen the resource base of commercial banks.

Since the first years of independence, a policy aimed at forming a dual banking system has been carried out in Uzbekistan that meets the demands and requirements of the market economy.

The banking system in Uzbekistan has undergone several stages of development during the years of independence.

- **The first stage lasted from 1991 until 1993** and was characterized by liquidation of the monobank system, formation of the CBU, and creation of a dual banking system. When the Law on Banks and Banking Activity (15 February, 1991) was adopted, a legal foundation for establishing a dual banking system was created in the country for the first time. Thanks to the law,
  - first, in the short period of time since declaration of the CBU's state independence, branches have been created that ensure the formation and implementation of a monetary policy; and
  - second, a system of commercial banks has formed as the second link in the national banking system.
- **The second stage covered 1994-1997.** During this period the national currency was introduced, a payment system was created that promotes integration into world settlement relations, and banking legislation is being improved (laws On the Central Bank of the Republic of Uzbekistan and On Banks and Banking Activity have been adopted). One of the priority tasks of reforming the banking sector was its de-monopolization.

  At the initial stage this mainly happened by creating banks that specialize in servicing separate branches of the economy, such as Gallabank, Pakhtabank, Tcdbirkorbank, Alokabank, and Asakabank.

  On the basis of Resolution No. 362 of the Cabinet of Ministers of Uzbekistan of 13 July, 1994 (On Financial Support Measures for Developing the Banking System of the Republic of Uzbekistan), commercial banks were exempted from paying certain taxes, which made it possible to improve technical furbishing and create a payment system.
- **The third stage lasted from 1998 until 2000.** At this stage, the state's policy was aimed at creating private banks; improving corporate governance in joint-stock banks; reforming bank supervision; and re-examining financial reporting in compliance with the IFRS.

  One of the strategic areas in the changes was encouraging an inflow of private capital into the banking sector. This process was stimulated in 1997 when a presidential decree On Measures to Stimulate the Creation of Private Commercial Banks was issued that offered several benefits to banks established with a share of physical entities of no less than 50%.
- **At the fourth stage** a banking system reform program for 2000-2003 was adopted, the implementation of which resulted in a system of corporate governance being introduced into commercial banks. Specialized commercial banks, such as Pakhtabank, Gallabank, Asakabank, and Alokabank, were universalized. In addition, the government sets of shares of such banks as Tadbirkorbank, Savdogarbank, Trastbank, Uzprivatbank, and the Ipak Yuli bank were sold.

  Resolution No. 195 of the Cabinet of Ministers of 19 May, 2000 On Additional Measures to Stimulate the Participation of Commercial Banks in the Development of Small and

Medium Business endorsed the creation in commercial banks of a concessional lending fund for increasing the access of small business entities to financial resources.

In order to raise the confidence in the banking system, laws On Banking Secrecy (2003) and On Guarantees for Protecting Household Deposits in Banks (2002) were adopted. A fund has been created for protecting household deposits in banks, to which all banks operating in the country belong. This guarantees the reliable protection of deposits, which has significantly increased the population's willingness to place their money in banks. It should be noted that in November 2008 a one-hundred-percent state guarantee was introduced for household deposits in banks regardless of the size of deposit.

The banking system reform program for 2003-2004 included: improving the tools of monetary policy and stimulating non-cash payments; developing retail services and consumer crediting system; raising the financial stability and capitalization of banks; improving the bank supervision system; raising the transparency of the banking system; integrating the financial system into the world economic community; and improving the interbank market.

In 2004, a credit history bureau was created in compliance with a government resolution in order to strengthen financial discipline, lower loan operation risks, and, based on international experience, provide information about potential borrowers. A National Institute of Credit Information of the Central Bank and Interbank Credit Bureau have been registered.

Another step toward increasing the efficiency of the entire banking system was introduction of the UZIBOR reference rate for interbank market deposits, similar to foreign reference rates such as Britain's LIBOR, Germany's FIBOR, France's PIBOR, and Russia's MosIBOR. This innovation, which came into force in October 2004, made it possible to profitably place the funds of commercial banks, raise the liquidity and turnover rate of the short-term money market, and adjust the interest rates of the interbank capital market. UZIBOR is an important benchmark for foreign investors when comparing Uzbekistan's earning power with other countries.

On 15 October, 2003, free conversion of national currency to foreign currency on current transactions of the payment balance was introduced in Uzbekistan. It is important to emphasize that Uzbekistan reached this goal without resorting to external hard currency borrowings. In so doing, it managed to retain the trend toward an increase in the country's international reserves. Over the past 5 years (2004-2008) they increased six-fold and amount to the equivalent of 1.5 annual imports.

The program for reforming and developing the banking sector for 2005-2007 includes: implementing specific measures for reinforcing monetary circulation; raising the stability of the national currency; stimulating an increase in household deposits; drawing large amounts of finances into banking circulation that remain beyond banking circulation; strengthening and raising the soundness of commercial banks; carrying out complete privatization of commercial banks; creating joint banks; developing different types of consumer loans and project financing; encouraging the active participation of commercial banks in the structural changes of the economy; and promoting significant expansion of their operations in the security market.

The program envisages a stage-by-stage increase in the authorized capital for newly created banks, thus bringing its volume up to 5 million dollars by 1 January, 2007 in soum equivalent for commercial banks and up to 2.5 million dollars for private banks. In order to raise the number of private shareholders and stimulate the creation of private banks before 1 January, 2010, the household income acquired as dividends on the shares of commercial banks was tax free.

Deposits in Uzbekistan's commercial banks are dynamically growing. This is partially explained by the increase in the total receipts in household deposits. As of 1 January, 2009, household deposits in the country's commercial banks amounted to 1,644.0 billion soums. In 2008, the increase in volume of household deposits compared with 2006 amounted to 242.4%. But the volume of transaction deposits in 2008 compared with 2004 decreased. This can be associated with the adoption of a presidential resolution of 5 August, 2005 On Guarantees of Uninterrupted Provision of Cash Payments from Deposit Accounts in Banks.

The adoption of this resolution helped to increase the people's confidence in the banking system. From 2000 to 2005, a trend toward an increase in household deposits was seen. This is explained by the fact that, first, household cash revenues are rising and, second, commercial banks are paying reasonable interest rates. In order to stimulate the attraction of freely circulating household funds, reserve demands on household deposits were cancelled.

In 2005, the CBU undertook serious measures to execute the presidential resolution of 5 August, 2005. One such measure was full support of cash execution of the state budget.

In 2005, as a result of the measures undertaken by the CBU to reduce the amount of cash circulating beyond banks, the average monthly commercial banks' cash turnover increased by 49.7%. And the number of economic entities depositing cash through collection services increased to 7,962. As we know, one of the main ways to reduce the circulation of cash beyond banks is to ensure a stable increase in household deposits in commercial banks.

The data of recent years show the high level of liquidity of banks operating in Uzbekistan, particularly state banks.

There has been an increase in the absolute sum of aggregate capital of commercial banks. Whereas in 2000 this index amounted to 276 billion, in 2008 it reached 2,104.0 billion soums. This was promoted by measures aimed to raise the level of bank capitalization, which helped to fortify the capital base of banks and increase their solvency. In all of the country's large banks, the actual level of capital adequacy ratio (Basel 1) is higher than the standard level.

According to the 2008 year-end results:

— the aggregate current liquidity of the banking system amounts to an equivalent of more than 1.5 billion dollars, which is ten-fold higher than the volume of executory payments on external nongovernmental borrowings;

— the regulatory capital adequacy of Uzbekistan's commercial banks is almost three-fold higher than the international standards determined by the requirements of the international Basel committee on banking supervision;[3]

— the total assets of commercial banks is almost twice as high as the volume of acquired household and corporate deposits.

During 1995-2005, qualitative structural changes took place in the country's banking system. Whereas in 1995, the share of loans of Uzbekistan nongovernmental banks amounted to 18.8% of the total volume of bank loans, in 2005 this index was 31.1%.

In order to encourage the broad participation of commercial banks in the SME investment process, at the end of 1999-beginning of 2000, banks whose activity enjoyed concessional taxation were allowed to create a special concessional lending fund. The micro loans issued from this fund, as well as by means of lines of credit from extrabudgetary funds, have concessionary interest rates that are twice as low as the official CBU refinancing rate.

In 2008, Uzbekistan's commercial banks granted loans using all of their financing sources to small business and private business entities totaling 1,250.7 billion soums. This is 68.2% more than in 2007.[4]

[3] I.K. Karimov, *Mirovoi finansovo-ekonomicheskii krizis, puti i mery po ego preodoleniiu v usloviiakh Uzbekistana*, Uzbekistan, Tashkent, 2009, p. 24.

[4] *Statbulleten Gosudarstvennogo komiteta statistiki Respubliki Uzbekistan,* Tashkent, 2009.

Attracting lines of credit from international financial organizations has made it possible for commercial banks to accelerate the financing of small business entities with respect to financial support of investment projects. Banks are closely cooperating with special extra-budgetary funds, as well as with international and foreign financial organizations that offer dedicated credit lines for developing small and medium business.

Commercial banks in Uzbekistan are active in the money transfer market. The Western Union money transfer system began operating in the republic in 2001. The first bank to introduce this system in Uzbekistan was Biznes Bank, a private joint-stock commercial bank. It was followed by the National Bank VED RU, ChAKB Khamkorbank, the People's Bank, GA Uzzhilsberbank, and others. Today, 14 banks in Uzbekistan offer transactions in the Western Union system. They have registered a total of 250 money transfer terminals, 170 of which are currently in operation (72 in Tashkent). In addition to the Western Union system, rapid money transfer services are offered by banks and other systems in the republic: Contact, MoneyGram, Anelik, Tezkor, MIGOM, and Bystraia Pochta. Only Uzprivatbank, which has opened three terminals in Tashkent, supports rapid money transfers in the Anelik system, the People's Bank in Tezkor, Uzpromstroibank in MIGOM, and Turonbank in Bystraia Pochta. In addition, Asaka Bank introduced its own money transfer system that has no analogs—Asaka VIP Money Transfer.[5]

According to the data of the Center of Economic Research, during 2002-2006 alone the inflow of official money transfers into the country increased more than five-fold, amounting to almost 1.4 billion dollars, or 8.2% of the GDP. Outgoing money transfers rose more slowly, increasing during the same period 2.6-fold and amounting to 226.7 million dollars at the end of 2006. Thus, Uzbekistan is a net recipient of money transfers, whereby the gap between inflow and outflow is increasing.[6]

In order to execute the Cabinet of Ministers resolution of 24 September, 2004 (On Measures for the Further Development of the Payment System Based on Banking Cards), the CBU and commercial banks undertook measures to expand the system of electronic payments using banking cards. For example, as of 1 January, 2006, 21 banks had issued 2,990,000 banking cards and the number of terminals for carrying out payments using banking cards reached 11,016.

The country's government has created the necessary conditions for developing banking card transactions. In particular, commercial banks were exempt until 1 January, 2005 from paying customs fees (apart from customs registration fees) during the import of banking tellers and other technological equipment used for making payments using banking cards. A decrease in the taxable base was established for commercial banks in the amount of the increase in the balance on household banking card accounts.

As of 1 January, 2009, the republic's banks have issued 4.5 million banking cards and set up 27,500 terminals. Large commercial banks account for the bulk of this issue: the National Bank VED RU, Uzpromstroibank, Pakhtabank, Uzzhilsberbank, and Asaka bank. The increase in number of banking cards in circulation will help to develop non-cash payments and expand their sphere of application. A single republic-wide processing center was also created which makes it possible to perform banking transactions in a single regime at all commercial terminals regardless of which bank services the trade organization or card holder.

As can be seen from the data presented, in 2004-2008 a trend was seen toward an increase in assets, loans, deposits, and the aggregate capital of Uzbekistan's commercial banks. In turn, the growth rates in their assets are explained by the increase in loans, since the latter occupy a relatively high percentage in the asset structure.

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[5] *Materialy nauchno-prakticheskikh issledovanii Tsentra sotsialno-ekonomicheskikh issledovanii*, Tashkent, 2008.
[6] *Vliianie denezhnykh perevodov na ekonomiku Uzbekistana*, Center of Economic Research, Tashkent, 2007, p. 6.

In 2004-2007, by lowering the refinancing rate and required reserves standard, the CBU created favorable conditions for deposit-borrowing transactions of commercial banks.

Table 2

Dynamics of Assets, Loans, Deposits, and Aggregate Capital of Uzbekistan's Commercial Banks[7]

	2004	2005	2006	2007	2008	In 2008 compared to 2004
Assets, *billion soums*	5,004.2	5,630.6	7,207.5	9,276.1	12,064.7	2.4-fold
Loans, *billion soums*	3,572.2	3,853.3	4,104.2	4,777.6	6,372.0	1.8-fold
Deposits, *billion soums*	1,272.2	1,688.7	2,544.5	3,829.2	5,771.6	4.5-fold
Total capital, *billion soums*	824.1	930.9	1,070.1	1,502.6	2,104.0	2.6-fold

These high deposit growth rates are explained by the following factors:

— household monetary incomes are on the rise (in 2008, the average salary in budget organizations increased more than 1.5-fold, while they rose 1.4-fold throughout the economy as a whole, real household incomes per capita increased 23% over the year);

— the volume of net profit of economic entities is increasing;

— a tax privilege was introduced on bank transactions with short-term household deposits (the taxable base of Uzbekistan's commercial banks is shrinking in the same amount as the increase in short-term household deposits).

Since 2005, the government and the CBU have been conducting a policy aimed at raising bank capitalization. As a result of this policy, in 2004-2008 the growth rates in the total capital of commercial banks increased 2.6-fold.

II. The Banking System's Role in Implementing the Anti-Crisis Program

The world financial crisis that began in 2008 led to a curtailment in the volume of investment activity, as well as an economic slump, a drop in demand, and a decrease in the international trade volumes. It also led to a drop in bank liquidity and solvency in many countries of the world.

[7] The table is compiled on the basis of the statistics of the Central Bank of the Republic of Uzbekistan.

The following factors helped to soften the impact of the world crisis on Uzbekistan's banking system:

1. According to the results of 2008, the total current liquidity of the country's banking system is ten-fold higher than the volume of pending payments on external nongovernmental borrowings;
2. The actual total capital adequacy of Uzbekistan's banking system is almost three-fold higher than the regulatory requirement of the international Basel committee for the capital adequacy ratio of commercial banks.
3. In 2000-2008, the total volume of deposits in commercial banks increased more than 25-fold and reached a level of 15.8% of the GDP.
4. The percentage of problem loans in the gross assets of the republic's commercial banks did not exceed 3%.
5. The country's banking system refused to engage in external short-term speculative loans and its banks conducted a conservative credit policy.
6. Since 2005, the state budget has been executed with a positive balance.
7. Since the second half of 2003, the Uzbekistan government has completely given up the practice of taking out CB loans to cover the state budget deficit.

An Anti-Crisis Program has been drawn up in many countries of the world, including in Uzbekistan, the main component of which is a set of measures aimed at saving the banking system.

Within the framework of the Anti-Crisis Program for saving banks, the following measures were undertaken in different countries of the world:

1. Raising the Level of Bank Capitalization by Means of Additional Issuing of Shares and Offering Subordinated Loans

The state or Central Bank buys up the additional issue of shares. But their financial possibilities are limited. So this measure primarily affects system-forming banks, the bankruptcy of which could have a serious negative impact on the country's financial and economic situation. For example, in the U.S., the largest banks, G.P. Morgan Chase, Merrill Lynch, Morgan Stanley, and Bank of America, found themselves in a liquidity trap. So the U.S. Ministry of Finance had to buy their shares for 125 billion dollars. 125 billion of the 703 billion dollars of the U.S. anti-crisis program adopted in September 2008 were used to help small and medium banks.

The Swedish government decided to pump up to 50 billion krones (6 billion dollars or 4.7 billion euros) into the country's banks. This step was instigated by the need to raise the banks' liquidity. In exchange, the government will obtain the right to purchase an additional issue of ordinary bank shares. The Swedish injections into the banking sector will be carried out through the stabilization fund, the decision to create which was approved by the parliament in October 2008. The Swedish financial system assistance plan adopted at that time envisages allotting the banks a total of 1.5 trillion krones (more than 152 billion euros).[8]

In France and Russia, a method for granting subordinated loans was used to maintain the liquidity of large system-forming banks.

[8] Data from the Internet site [http/lenta.ru/news/2009/02/03/banks»].

Toward the end of 2008, the Society for Financing the French Economy granted leading French banks 10.5 billion euros in subordinated loans, including Crédit Agricole—3 billion, BNPP—2.55 billion, Société Générale—1.7 billion, Crédit Mutuel—1.2 billion, Groupe Caisse d'Epargne—1.1 billion, and Groupe Banque Populaire—0.5 billion euros.

In 2008, the three largest Russian banks—Sberbank, VTB, and Rosselkhozbank—were granted subordinated loans totaling 950 billion rubles with a 8% annual interest rate until 2020.

In Uzbekistan, the amount of authorized capital of six large system-forming banks was increased by means of state budget and Central Bank funds.

Table 3

Volume of Funds Used to Increase the Authorized Capital of Commercial Banks

No.	Name of bank	Declared authorized capital, *billion soums*	Additional issue of shares					
			Total	Including				
				2008	2009	2010	2011	2012
1	Khalk banki	200	120	20	30	30	20	20
2	Asakabank	300	147	100	47	—	—	—
3	Promstroibank	100	65	63	2	—	—	—
4	Mikrokreditbank	150	72	54	18	—	—	—
5	Pakhtabank	100	50	22	28	—	—	—
6	Gallabank	50	36	13	23	—	—	—
Total		900	490	272	148	30	20	20

As can be seen from the data presented, until 2012 the amount of authorized capital of six of the country's banks will increase by 490 billion soums by means of state budget and CBU funds.

2. Nationalization of Banks

Due to the world crisis, many commercial banks lost their liquidity and found themselves on the brink of bankruptcy. For example, in the U.S., due to large debts and low liquidity, two of the largest mortgage banks—Fanny Mae and Freddie Mac—were on the brink of bankruptcy. The U.S. government had to completely nationalize them.

In the European Union, Great Britain and Germany are the leading countries with respect to bank nationalization level. In order to prevent the bankruptcy of the country's largest bank—the Royal Bank of Scotland—the British government purchased 58% of its shares. There are also plans to purchase Branford and Bringley.

In Germany, the government bought the shares of three banks. Banks are also being nationalized in other European countries. For example, in Iceland, two of the countries largest banks—Landsbanki and Ilitner—have been nationalized.

3. Lowering the Refinancing Rates of Central Banks

In order to raise the liquidity of commercial banks and the accessibility of banking loans, central banks have been lowering their refinancing rates. In the U.S., the Federal Reserve System (FRS) reduced the refinancing rate to 1%, the European Central Bank to 2%, and the Central Bank of Japan to 0.3%.

In 2008, the FRS refinancing rate reached an all-time low in U.S. history of 5.25%. The drop in the Central Bank's refinancing rate corresponds to the increase in the current liquidity of the country's commercial banks. But maintaining relatively low interest rates on commercial bank loans could provoke inflation. According to several experts, maintaining the FRS refinancing rate at one percent for many months in 2002-2003 led to the current world crisis.

On 8 January, 2009, the Central Bank of England lowered its refinancing rate by half a percentage point to 1.5% per annum. This step was instigated by the need to maintain the banks' liquidity and stimulate the solvent demand of economic entities. But in conditions of the world crisis not all central banks are lowering their refinancing rates. For example, the Central Bank of Russia raised its refinancing rate twice in the last few months of 2008. And the refinancing rate of the Central Bank of Uzbekistan has remained unchanged over the past three years (2006-2008) at a level of 14% per annum.

It should be noted that with respect to the world financial crisis central banks have established a long list of securities to be used for guaranteeing centralized loans. For example, the European Central Bank has been accepting corporate bonds and the shares of several corporations nominated in euros since 2008 in order to guarantee the centralized loans offered to commercial banks. The Central Bank of England announced in April 2008 that it was going to offer commercial banks British treasury notes against securities, inclufing mortgages.

For the first time in history, the U.S. FRS began buying government securities directly from the issuer. In addition, in October 2008, the FRS declared that it would directly support U.S. corporations by buying their short-term bonds.

4. State Guarantee of Household Deposits in Banks

The increased risk of liquidity and bankruptcy is lowering the people's confidence in banks. In such conditions, increasing the amount of secured deposits or a 100-percent government guarantee of household deposits are extremely important. For example, in Russia, due to the crisis, the amount of a secured deposit has been raised to 700,000 rubles, in the U.S deposits of up to 200,000 dollars are secured. In some countries, the state guarantees all household deposits.

5. Government Purchase of Housing for the Poor and for Servicemen

Many banks found themselves on the brink of bankruptcy because they acquired mortgaged real property by means of short-term resources. When the price of real estate began to drop, they experienced a shortage of money since they had insufficient ways to refinance mortgage loans. In such cases, the state can help banks by purchasing housing for the poor and for servicemen.

6. Government Settlement of Residents' International Loans

In some countries of the world, including Russia, problems have arisen as the result of the global financial crisis associated with settling international loans. According to Russian analysts, "in past years these debts were returned by taking out more loans, whereby even in larger amounts than the initial debt. Now Western investors have significantly decreased the loans they offer to the organizations of other countries, particularly Russia. The conditions of these loans have become tougher and the interest rate has gone up. In addition, the dollar exchange rate has increased by 20%."[9]

Keeping in mind the difficulties in paying back international loans received by residents, the Central Bank of Russia allotted Vneshekonombank 50 billion dollars for servicing the international loans of resident companies.

In Uzbekistan, a set of measures was drawn up aimed at resolving the following key tasks:

1. Further accelerated modernization, technical and technological refurbishing of enterprises, and wide introduction of state-of-the-art flexible technology. This primarily applies to the basic branches of the economy, as well as export-orientated and localized production units.

   There are plans to accelerate the implementation of branch programs for modernizing and technically and technologically refurbishing production, as well as transferring to international quality standards, which will make it possible to ensure stable positions both in the foreign and in the domestic markets.

2. Implementing specific measures to support export enterprises in order to ensure their competitiveness in the foreign markets in conditions of an abrupt deterioration of the current market conditions and creating additional stimuli for export, including:

   — issuing them concessional loans for working capital financing for up to 12 months at a rate of no more than 70% of the refinancing rate of the Central Bank;

   — extending, until 2012, exemption from all types of taxes and fees to the budget, apart from VAT, of enterprises with foreign investments specializing in the production of finished commodities;

   — restructuring the amount of overdue and current debts on bank loans and writing off the penalty on payments to the budget, as well as offering other no less important privileges and preferences.

3. Raising the competitiveness of enterprises by introducing a tough economic regime and stimulating a decrease in production expenses and cost reduction. In 2008, the proposals of economic entities were approved for implementing measures aimed at cutting the production costs by at least 20 percent in the leading branches and spheres of Uzbekistan's economy.

   There are plans to develop an efficient mechanism for encouraging directors and executives who achieve the designated parameters to lower production costs.

   A mechanism has also been drawn up in the Anti-Crisis Program to limit any price increases in 2009 on all types of energy resources and main types of communal services to no more than 6-8 percent, with absolute provision of the profitability of their production.

4. Implementing measures to modernize the energy industry, reduce the energy-output ratio, and introduce an effective energy-saving system.

[9] A.G. Aganbegian, "Rossiia v period globalnogo finansovo-ekonomicheskogo krizisa 2008-2009 gg.," *Bankovskie uslugi*, No. 1, 2009, p. 25.

5. In conditions of the falling demand in the world market, support of domestic producers by stimulating demand in the domestic market plays a key role in maintaining the high rates of economic growth.

   An important element of this task is expanding the program of production localization, the volumes of which are to increase 3-4-fold.

   The programs adopted for stimulating an increase in the production of food and non-food consumer goods envisage extensive stimuli for supporting domestic production enterprises. In particular, until 1 January, 2012, tax and customs benefits have been granted in the form of:

   — lowering the single tax payment rate by 50% for micro companies and small businesses specializing in processing meat and milk, with targeted spending of the released funds on technical refurbishing and modernization of production;

   — exempting enterprises specializing in putting out certain types of finished non-food items from paying profit tax and property tax and micro companies and small businesses from the single tax payment;

   — adopting measures to lower the single tax payment rate for micro companies and small businesses from 10 to 8 percent, and beginning in 2009 to 7 percent and lowering the rate on household income with simultaneous improvement of its computation scale created powerful stimuli for developing business activity and small and private business.

   In order to raise the country's competitiveness in the mid and long term:

   — the implementation of several very important strategic projects was accelerated in the energy industry, the oil-, gas-, and chemical industry, and the metallurgical industry;

   — another three big programs have been developed for modernizing rail transport, the energy industry, and the leather and shoe industry to begin in 2009;

   — a program of technical modernization and production reconstruction for 2009-2014 has been adopted consisting of 852 projects totaling 42.5 billion dollars;

   — a set of measures has been developed and is being carried out to expand cooperation with IFIs, international organizations, and funds with respect to co-financing large innovation projects, technical modernization projects, and production infrastructure projects;

   — an energy-saving program has been developed that envisages the accelerated withdrawal and replacement of energy-intensive with energy-saving equipment, the complete automation of the accounting system, as well as the introduction of alternative sources of energy;

   — measures are being adopted to expand the introduction of both domestic and foreign innovative developments into the economy and create a system promoting their active use not only at large, but also at small enterprises.

On the whole, the set of measures adopted and being carried out within the framework of Uzbekistan's Anti-Crisis Program, the sum of which amounts to a total of 3.9% of the GDP, is aimed at ensuring stability of the country's macroeconomic development.