



INTERNATIONAL JOURNAL OF BUSINESS

# **MANAGEMENT AND ACCOUNTING**

# International Journal of Business, Management and Accounting

Volume 1, No.2, May 2021

**Internet address:** <http://www.ejournals.id/index.php/IJBMA/issue/archive>

**E-mail:** [info@ejournals.id](mailto:info@ejournals.id)

Published by ejournals PVT LTD

Issued Bimonthly

DOI prefix: 10.52325

Potsdamer Straße 170, 10784 Berlin, Germany

## *Requirements for the authors.*

*The manuscript authors must provide reliable results of the work done, as well as an objective judgment on the significance of the study. The data underlying the work should be presented accurately, without errors. The work should contain enough details and bibliographic references for possible reproduction. False or knowingly erroneous statements are perceived as unethical behavior and unacceptable.*

*Authors should make sure that the original work is submitted and, if other authors' works or claims are used, provide appropriate bibliographic references or citations. Plagiarism can exist in many forms - from representing someone else's work as copyright to copying or paraphrasing significant parts of another's work without attribution, as well as claiming one's rights to the results of another's research. Plagiarism in all forms constitutes unethical acts and is unacceptable. Responsibility for plagiarism is entirely on the shoulders of the authors.*

*Significant errors in published works. If the author detects significant errors or inaccuracies in the publication, the author must inform the editor of the journal or the publisher about this and interact with them in order to remove the publication as soon as possible or correct errors. If the editor or publisher has received information from a third party that the publication contains significant errors, the author must withdraw the work or correct the errors as soon as possible.*

**OPEN ACCESS**

Copyright © 2021 by ejournals PVT LTD

## CHIEF EDITOR

**Serikuly Zhandos**

PhD, Associate Professor, RWTH Aachen University, *Aachen, Germany*

## EDITORIAL BOARD

**T. Pfeiffer**

University of Vienna, *Austria*

**C. Dambrin**

ESCP Business School, *France*

**R. Chenhall**

Monash University, *Australia*

**A. Davila**

University of Navarra, *Spain*

**N. Dai**

University of International Business and  
Economics, *China*

## **TOPICAL ISSUES OF THE DEVELOPMENT OF CURRENCY OPERATIONS OF COMMERCIAL BANKS**

*Running title: Foreign exchange transactions of commercial banks*

**IbodullayevaMa`rifat**

Doctoral student of the Banking and Finance Academy of the  
Republic of Uzbekistan  
Tashkent, Uzbekistan  
m\_ibodullayeva94@mail.ru

*Abstract. In the Strategy of Action on five priority directions of development of the Republic of Uzbekistan for 2017-2021, it is noted that the liberalization of foreign exchange policy and the introduction of market mechanisms for regulating foreign exchange relations are prerequisites for ensuring the stability of macroeconomic growth (1, p. 32). However, the effectiveness of measures aimed at reforming foreign exchange relations largely depends on the degree of development of foreign exchange transactions of commercial banks. Since, commercial banks are the main players in the foreign exchange markets, concluding foreign exchange transactions on their own behalf and on behalf of clients.*

*The above circumstances necessitate the study of topical issues related to the development of foreign exchange transactions of commercial banks in the new conditions of reforming foreign exchange relations.*

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

*Key words: commercial bank, spot, forward, currency option, currency futures, exchange rate, currency risk, open currency position.*

### **Introduction**

Foreign exchange operations of commercial banks are traditional banking operations and will play an important role in the development of international credit and settlement relations of the country, as well as in the development of export and import operations of clients.

Also, foreign exchange operations of commercial banks (swap operations, operations with foreign exchange options and futures) are actively used to protect the foreign exchange reserves of companies from foreign exchange risk.

However, at present there are a number of problems associated with the development of 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. In addition, the presence of unilateral correspondent relations of banks of Uzbekistan with foreign banks negatively affects the development of foreign exchange transactions of commercial banks.

The need to develop scientific proposals aimed at solving problems associated with the development of foreign exchange transactions of commercial banks determines the relevance of this scientific research.

### **Literature review**

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

have been formulated.

According to L. Krasavina (2, pp. 175-176), for commercial banks, foreign exchange options of the European standard are considered less risky; when using foreign exchange options of the American standard, banks should be careful, since transactions with such options are high-risk.

According to J. Sinki (3, p. 807), if for some reason a bank is unable to hedge within the balance sheet, it can use off-balance sheet methods for hedging purposes, i.e. use currency derivatives - futures, forwards, options.

The Black-Scholes mathematical model, presented in the 70s, has become widespread in practice. According to the Black-Scholes model (4, p. 637-654), 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 value of the option is known, then the level of volatility expected by the market can be determined.

Research by I. Vasiliev and O. Khmyz showed (5, p. 24) that the main currencies involved in currency swap transactions in the international foreign exchange market are the US dollar and the euro. These are the most traded currencies around the world. Consequently, the currency swap market as a whole follows the trends of the international foreign exchange market, largely determined by global changes in the world financial architecture.

N. Shchegolevava V. Khabarov (6, p. 34) revealed the following features of currency swaps:

- they are always based on attracted resources;
- they include an element of forward operations, therefore, they have inherent objectives of forward operations, namely the placement of assets and insurance against changes in the exchange rate (foreign exchange risks), that is, hedging.

According to H. Backlund (7, p. 7), financial instruments of the hedging market include the following:

- currency forwards;
- currency futures;
- currency swaps;
- currency options.

### **Materials and methods**

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

According to the Law of the Republic of Uzbekistan "On Currency Regulation" (8, 20-article), "banks of the Republic of Uzbekistan have the right to have correspondent and other accounts in banks of the Republic of Uzbekistan and foreign banks and conduct transactions for the purchase and sale of foreign currency, including currency derivatives, directly among themselves, with their customers, as well as through currency exchanges and international markets. Banks of the Republic of Uzbekistan are obliged to carry out currency transactions subject to the submission by residents and non-residents of the relevant documents required by banks to carry out currency transactions.

"

Conversion operations of commercial banks of Uzbekistan in the domestic foreign exchange market are carried out in accordance with the "Rule of Interbank Trading Sessions at the Uzbek Republican Currency Exchange" (9).

**According to this Rule:**

- only members of the Supervisory Board of the Republican Currency Exchange (RVB), traders, an authorized representative of the Central Bank and exchange employees involved in organizing and conducting trades are allowed to the trading hall;
- representatives of the press and other organizations are admitted to the trading hall as an observer with the permission of the RVB Executive Body;
- interbank trading sessions are held using the "fixing" method, at least twice a week;
- one day before the start of trading, Dealers are required to submit preliminary orders for the purchase and (or) sale of foreign currency to the REX;
- 45 minutes before the start of trading, the stockbroker monitors the compliance of the necessary parameters entered into the Trading System (start and end times of trading, type of instrument, determined rate of this instrument in previous trading);
- 30 minutes before the start of trading, traders are authenticated;
- after authentication, traders enter initial orders into the Trading system (in this case, the Trading system checks the availability of funds in foreign currency sufficient for the Dealers' operations in accordance with the entered initial orders).

Currency swap transactions of commercial banks of Uzbekistan are regulated by the instruction of the Central Bank "On Approval of the Regulation on the Procedure for Conducting Currency Swap Transactions by Banks of the Republic of Uzbekistan" (10).

In accordance with this instruction, commercial banks of the republic have the right to perform swap operations with only 5 currencies:

- US dollar (USD);
- Euro (EUR);
- Japanese yen (JPY);
- British pound sterling (GBP);
- Swiss franc (CHF).

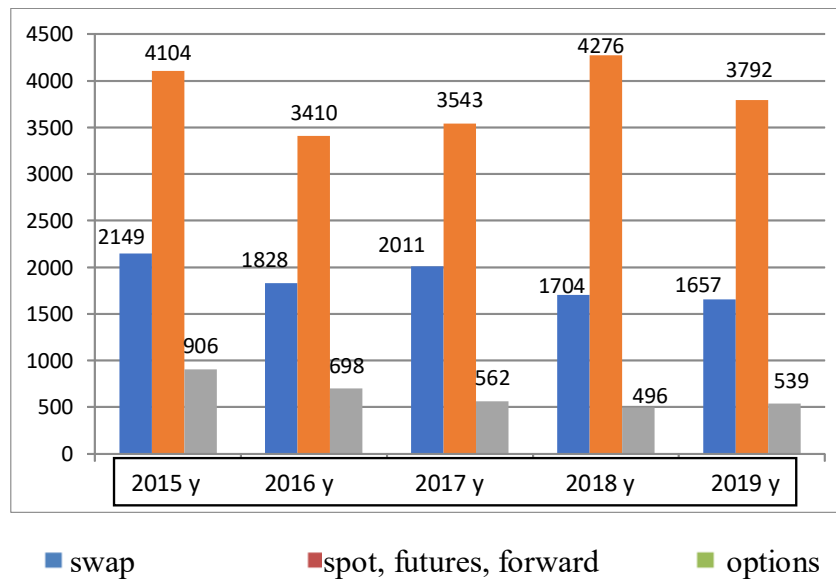
In accordance with this instruction, commercial banks of Uzbekistan, when performing forward operations and swap operations, use as interest rates:

- \* in national currency - market rate of loans (UZIBOR);
- \* for the US dollar - the US Federal Reserve rate on federal funds;
- \* for euro - the discount rate of the European Central Bank;
- \* for the Japanese yen - the overnight funding rate of the Central Bank of Japan;
- \* for pound sterling - the bank rate of the Central Bank of England;
- \* Swiss franc - 3 monthly LIBOR.

**Discussion**

In recent years, swap transactions of commercial banks with currencies in the international currency markets have been growing at a faster pace. So, in 2017, currency swaps came out on top among other types of international currency transactions (11, p. 8).

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 (12)**

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.

Below we will consider the structure of currency transactions of Asakabank, a large commercial bank of Uzbekistan.

**Table 1  
Structure of currency transactions of JSC "Asakabank" a (Uzbekistan) (13)  
in percents**

Type of currency transaction	2016 y	2017 y	2018 y
Spotoperations	49,4	50,4	46,5
ForwardandSwapTransactions	50,6	49,6	53,5
Currencytransactions - total	100,0	100,0	100,0

As can be seen from the data in Table 1, in the structure of currency transactions of Asakabank, a relatively large share is occupied by spot transactions. This is due to the fact that, firstly, during the analyzed period, the volume of current foreign exchange transactions of Asakabank's clients increased; secondly, the level of development of forward and swap operations is low.

In the practice of commercial banks in Uzbekistan, there are no transactions with currency options and currency futures.

The low level of development of forward operations and swap operations is explained by the following reasons:

1. High level of devaluation of the national currency.

The level of devaluation of the national currency against the US dollar over the past five years (2015-2019) amounted to 338.3%.

2. The presence of a large difference between the interest rates of deposits in national currency and loans in the currency of the transaction.

**Table 2**

**The rate in LIBOR US dollars and the average annual interest rate of time deposits in the national currency of Uzbekistan,% (14)**

	2015y.	2016y.	2017y.	2018y.	2019y.
12-month LIBOR USD	0,79	1,38	1,79	2,76	1,54
Average annual interest rate of deposits in national currency	6,7	10,5	12,6	14,9	16,8

As can be seen from Table 2, there is a large difference between the interest rate for deposits in national currency and the interest rate for loans in US dollars.

3. The presence of unilateral correspondent relations of commercial banks of Uzbekistan with foreign banks, which negatively affects the liquidity of banks.

Commercial banks of Uzbekistan have correspondent accounts "Nostro" in foreign banks, and foreign banks do not have their own correspondent accounts in banks of the republic.

**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.

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 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;
- the presence of unilateral correspondent relations of commercial banks of Uzbekistan



with foreign banks.

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

1. It is necessary to introduce in the practice of commercial banks futures operations and operations with foreign exchange options of the European standard.

European standard currency options are less risky for commercial banks. Since, buying and selling currency according to these options is carried out only after the expiration of the option.

The introduction of currency futures in practice, firstly, allows banks to reduce the level of currency risk; secondly, it increases the volume of exchange trading in securities.

2. In order to reduce foreign exchange risk in banks by reducing the size of open foreign exchange positions of banks, it is necessary:

- to expand the use of settlement forwards (with a settlement forward, the settlement risk is minimized to the size of the exchange rate difference risk that may arise between the date of agreement and the date of delivery of the currency);

- widely apply currency swaps with the participation of the world's leading currencies - the US dollar, euro, yen, pound sterling and Swiss franc.

3. To establish bilateral correspondent relations with commercial banks of the countries - the main foreign trade partners of Uzbekistan (Russia, China, Kazakhstan, Turkey).

As a result of this, first, the liquidity of commercial banks increases, since fluctuations in the balances of currency correspondent accounts "Nostro" decrease; secondly, the demand for US dollars and other foreign currencies is decreasing; thirdly, the volume of transactions with national currencies of the countries - the main non-tradable countries of Uzbekistan - is increasing.

## References

- 1.Strategy of actions in five priority areas of development of the Republic of Uzbekistan for 2017-2021 // Collected Legislation of the Republic of Uzbekistan. - Tashkent, 2017 .-- 6 (766) - p. 32.
- 2.Krasavina L.N. International monetary and credit relations. Textbook. 4th ed., Revised. and add. - M .: Yurayt, 2014 .-- 543 p.
- 3.Sinky J. Financial management in a commercial bank and in the financial services industry. Per. from English - M .: Alpina Publisher, 2017 .-- 1018 p.
- 4.Black F., Scholes M. The pricing of options and corporate liabilities // The Journal of Political Economy. May-June, 1973. Vol. 81 (Issue 3). - P. 637-654.
- 5.Vasilyeva IP, Khmyz OV Theoretical aspects of the functioning of the currency market // Financial business. 2009. No. 2.P. 23 - 33.
- 6.Shegoleva N.G., Khabarov V.I. Types of swap transactions and implementation technology // Finance and Credit. - Moscow, 2012. - No. 37. - P. 33-42.
- 7.Helena Backlund. Currency risks and currency risk management. 2011. P. 17.
- 8.Law of the Republic of Uzbekistan "On currency regulation" (new edition) // National database of legislation, 23.10.2019, No. 03/19/573/3942.
- 9.Rules for conducting interbank trading sessions at the Uzbek Republican Currency Exchange // Protocol of the Supervisory Board of the Republican Currency Exchange of Uzbekistan No. 159 dated August 5, 2014.
- 10.Resolution of the Board of the Central Bank of the Republic of Uzbekistan No. 15/ 1 dated June 28, 2008 "On approval of the regulation on the procedure for carrying out currency swap operations by banks of the Republic of Uzbekistan" // Collected Legislation of the Republic of Uzbekistan, 2008, No. 29-30, p. 293; 2011, No. 22-23, p. 242.
- 11.Triennial Central Bank Survey. Basel: Bank for International Settlements, 2016, September. R. 8.
- 12.Bank of America. Annual Report 2016 (p. 129-130); Annual Report 2018 (p. 116-117); Annual Report 2019 (p. 123).
- 13.Table 6 A. Calculation of operational and market risks. asakabank.uz (Asakabank).
- 14.US dollar LIBOR interest rates in 2019. global - rates.com. interest-rates / labor... 2019.aspx .; Statistics. Interest rate for deposits in national currency. www.cbu.uz (Central Bank of the Republic of Uzbekistan).