

A mechanism to eliminate the negative effect of the pandemic on the economy through bank credits

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Abstract

People have been affected by the COVID-19 virus pandemic, but it is a global problem. It negatively impacted people's lives in all countries and communities and negatively impacted global economic development in 2020, unlike anything seen in over a century. According to current estimates, the virus slowed global economic growth to a -4.5 percent to -6.0 percent annualized rate in 2020, with a partial recovery of 2.5 percent to 5.2 percent expected in 2021. In addition, in 2020, global commerce was expected to decline by 5.3 percent, but it is expected to rise by 8.0 percent in 2021. The article analyzes the economic crisis caused by the coronavirus pandemic and its negative impact on all sectors of the country. It is proposed to overcome the economic crisis through the development of business entities. Based on the correlation and regression analysis, several positive aspects of business financing through bank loans were studied, including the positive impact on the country's GDP and employment growth.

1 Introduction

According to economic analysts, the economic crisis caused by the pandemic could be worse than 2008-2009. Nowadays, imagine that a pandemic deprives Europe, which has a single economic system, of much. First of all, tourism and airlines are suffering from this crisis. China alone has cut air travel due to the infection, and the Russian Federation has lost billions of US dollars due to restrictions on fuel imports. If the world situation is not stable, the world economy could lose \$ 4 trillion by the end of the year, which is more than the GDP of Germany, Europe's

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largest economy. Demand for oil and petroleum products has declined in China, Europe and Russia as businesses have shut down. This is also a big blow for Russia, which is shaping its budget mainly through energy resources and natural resources. Before the pandemic onset, economists had expected the world economy to grow by three percent by 2020. Now they are worried about the recession that began in the economy (Latin recessus - retreat), the beginning of a new economic crisis. Developed countries, including the United States and Germany, are particularly concerned.

Today, one of the main directions of the country's recovery from the economic crisis and employment is the development of business entities. The share of services provided by businesses in the world's developed countries in the country's GDP is 70-75%. The bulk of the population employed in the economy is also engaged in this sector, accounting for 70 percent in Japan and more than 80 percent in the United States. Loans from commercial banks finance up to 90% of the activities of business entities. According to the experience of developed economies, the main direction of funding the activities of business entities is lending by commercial banks. Great attention is paid to the development of entrepreneurship around the world. In particular, in January 2018, the World Bank allocated about \$ 4.8 million to support businesses. It has provided US \$ loans to 47 countries to finance 61 projects. "Despite the support of businesses by international financial institutions and commercial banks, businesses face more financial hurdles than large companies. International experience shows that commercial banks and credit unions have traditionally used lending methods. The World Bank's study of 91 commercial banks in 45 countries found that a business entity is a profitable customer for the bank, but macroeconomic instability in developing countries and financing of businesses is one of the main problems compared to businesses in developed countries."

In Uzbekistan, the issue of improving lending to businesses by commercial banks is also important. "... Reforming the banking and financial system of the country has allowed to increase the role of the banking system in the development of the country's economy. At the same time, in order to further improve the quality of banking services and establish full cooperation with businesses, the task of radically improving the working methods of commercial banks, strengthening the attitude of the population and businesses to the banking system as a reliable institutional partner remains relevant. Sustainable development of business entities, which are an active component of the country's socio-economic development, is inextricably linked with the banking system, which requires innovative complex banking services provided by commercial banks, including innovative lending services to new quality indicators. In particular, the fact that currently 55-60% of loans provided by commercial banks are issued based on the government programs, the large share of soft loans, the instability of the bank deposit base, high inflation risk increase the need and importance of solving existing problems, recommendations need to be developed.

2 Literature review

Following the current turmoil in the world, we consider it appropriate to recall the following verses written by Sheikh Saadi about 750 years ago and written as a permanent motto at the UN headquarters. The great thinker said: The human race was (Bani Bashar) actually originated from a single gem, and if life hurts one part of its body, the whole other organs become unstable. Some aspects of the development of the country's economy through the improvement of lending to businesses, assessment and management of risky processes in the lending process and the

development of forecast indicators of lending practices have been studied in the works of foreign economists Yu. A. Gerasina, R.M. Rasulov and others (Gerasina, Rasulov 2011). When studying the views of foreign scholars, the American economist Peter S. Rose describes the importance of bank credit as follows: "Bank loans promote the emergence of new enterprises and businesses and create new jobs, as well as ensure their economic viability." Well-known Russian economist T. Mazurina justified the following conditions for the development of lending to the real sector of the economy through loans from commercial banks, i.e., effective government policy and increasing the profitability of enterprises and businesses (Rose 1997). We believe that the approaches of both of the above scientists can help the state and commercial banks to develop business entities and increase their profitability, which in turn can lead to the creation of new jobs and economic development.

In the scientific work of Uzbek economists Sh. Z. Abdullaeva, O.K. Iminov and others developed several scientific and practical proposals for the development of lending practices of banks. In particular, based on a detailed analysis of the recommendations of the World Bank and other foreign financial institutions to improve the credit mechanism in Uzbekistan in line with world standards (Iminov 2001) and it was noted that the value of the service serves as the main criteria (Abdullaeva 2000).

Today, shortcomings in the credit policy of commercial banks and the practice of lending to businesses and their causes, including the lending regime of banks, still do not meet international standards and customer requirements. The fact that the lending practices of commercial banks in developed countries are not applied to commercial banks in the country led to the choice of the topic of this article. Therefore, the relevance of this scientific article is demonstrated by the fact that it is intended to provide well-founded scientific proposals for the introduction of commercial banks in Uzbekistan in the practice of lending to identify the existing problems of commercial banks and study the priorities of lending practices of foreign banks based on practical analysis.

3 Material and Methods

The study tried to point out that the most effective way to mitigate the negative impact of the global crisis caused by the coronavirus pandemic on the sectors of the Uzbek economy is through the development of businesses, and their financial problems can be solved through bank loans. Along with overcoming the economic crisis, these processes allow achieving more positive results, including a positive impact on the country's GDP growth, income growth and employment growth. For this purpose, data from the last 10 years of the State Statistics Committee were used. In addition, a correlation-regression analysis of the correlation between the number of people employed in business entities operating in the country and the share of bank loans to businesses in the share of business entities in GDP was conducted (Table 1).

Table 1. The share of business entities in the economy of the Republic of Uzbekistan

Years	Share of business entity in GDP (%)	Number of people employed by a business entity (million people)	Bank loans to individuals engaged in business entities (trillion soums)
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01.01.2010	45,7	7,7	0,7
01.01.2011	48,2	8,1	1,2
01.01.2012	50,1	8,3	1,8
01.01.2013	52,5	8,6	2,6
01.01.2014	54,0	8,9	4,1
01.01.2015	54,6	9,2	5,3
01.01.2016	55,8	9,6	6,9
01.01.2017	56,1	9,9	9,1
01.01.2018	62,9	10,1	9,5
01.01.2019	64,9	10,4	10,2
01.01.2020	63,6	10,5	14,4
01.01.2021	59,4	10,1	24,4

According to the sample correlation coefficient, the impact of the number of people employed in this sector on the share of business entities in GDP was high and was found to be $R=0.9597$. Also, the impact of bank loans to businesses on the share of business entities in GDP is high. $R=0.7686$.

In general, the degree of correlation between the studied factors is high (Table 2). We perform regression analysis using the capabilities of Excel "Data analysis". The bond density is $r=0.992474054$ based on the scale. Hence, the correlation coefficient between the indicators has a very strong correlation level based on this scale. According to the data, $a_0=-157331$, $a_1=8.056$, $a_2=0.00075$, the straight-line regression formula took the following form:

Table 2. (MS Excel) Limits of the sample correlation coefficient

Indicators	Share of business entity in GDP (%)	Number of people employed by the business entity (million people)	Bank loans to business entities (trillion soums)
Share of business entities in GDP (%)	1		
Number of people employed in business entities (million people)	0,959718037	1	
Bank loans to business entities (trillion soums)	0,768586181	0,910057465	1

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$$KBYU(y) = 8,056KBBS(x1) - 0,00075KBBKR(x2) - 15,7331$$

Hence, the regression coefficient a_1 determines the relationship between the resulting sign (u) and the factor sign (x). It indicates how many units the resulting character increases when the factor character increases by one unit. We use the F-criterion to check the adequacy of the regression equation ($Y=8,056-0x1-0,00075x2$).

According to the observed data, the calculated F_p (calculated, observed F) index was compared with the corresponding critical index F_k . (F critical, tabular).

$$F_{\text{account}}=4.25$$

$$Table F=295,595$$

The econometric model is adequate because the author's calculation is $F_{\text{account}} > F_{\text{table}}$.

$$T_k=2,262; T_{a0}=-3.9; T_{a1}=15.38; T_{a2}=-6.19$$

Since $T_{a1} > T_k$ in the calculation, a_1 means that the regression coefficient is significant. The following conclusions can be drawn from the above regression analysis: a 1% increase in the share of businesses in GDP by at least 8%. In addition, the study identified the volume of loans that have a positive impact on the country's economy and the impact of loans to the real sector, especially small business and entrepreneurship, on GDP through econometric analysis. By analyzing the relationship between the volume of loans and GDP in a regression method, it was determined that the relationship between them could be governed by the regression equation $u=11.09x+33282$. The practical significance of this work is that in order to ensure national growth in the country, the quantitative growth of the country's GDP by 2025 will reach 350 trillion. Assuming that the amount of loans required from banks to achieve this result is 25.543 trillion soums.

4 Results and Discussion

The first online summit of the G20 leaders to mitigate the negative effects of the pandemic was held on March 26, 2020. Two issues were discussed at the summit: first, the joint fight against the coronavirus epidemic, and second, the rescue of economic life from its consequences. At the end of the summit, the heads of state adopted a statement. They are working together with the International Monetary Fund, the World Bank and the World Health Organization to fight the coronavirus pandemic as a single front, direct 5 trillion to the world economy to eliminate its consequences, and coordinate activities to support free and sustainable international trade. Developed countries are drawing up their plans to address the impact of the pandemic crisis on the country's economy. In particular, we believe that the U.S. Anti-Crisis Plan, the unprecedented aid measures prepared by the US government, has pledged \$ 2.2 trillion to stabilize its economy, which has been hit hard by the coronavirus. Therefore, the US decided to allocate funds in dollars. State aid is primarily aimed at the population, as well as small and medium-sized businesses and entrepreneurs. In our opinion, this option is the most effective measure because the money (funds) quickly enters the real sector. We all know what measures are being taken by Uzbek leadership in this situation. In particular, the President signed a decree "On priority measures to mitigate the negative impact of the coronavirus pandemic and the global crisis on sectors of the economy," according to which 10 trillion worth Anti-Crisis Fund was established in the amount of UZS.

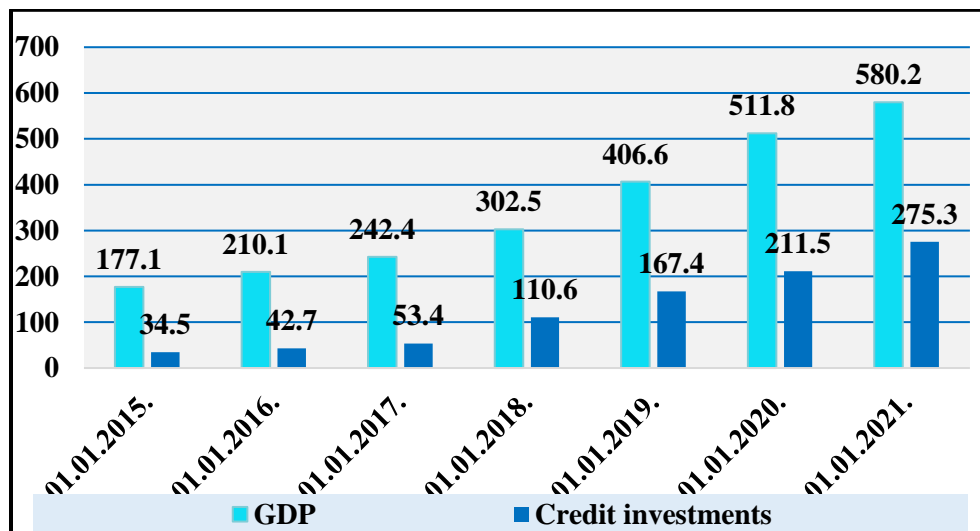


Fig. 1. Amount and share of credit investments of GDP and commercial banks in the country.

The World Bank has allocated \$ 700 million to support the anti-crisis program in Uzbekistan. In addition to the \$14 billion credit line, the US decided to allocate dollars. At present, the bank's management has allocated 1.2 billion soums to finance the healthcare system, social protection institutions, and budget support. It was noted that the issue of operational allocation of funds in the amount of USD is being considered. The \$ 1 billion Solidarity Package, formed by the European Bank for Reconstruction and Development, has provided \$ 200 million to four Uzbek commercial banks. In addition, credit lines and trade finance lines were provided to finance small and medium business projects in US dollars. If we analyze the work carried out by commercial banks on the development of the economy of Uzbekistan, as of January 1, 2021, the GDP of Uzbekistan amounted to 580.2 trillion soums and increased by 11.8% compared to January 1, 2020. In 2020, the gross domestic product reached 511.8 trillion soums and increased by 25.8% compared to 2019. In 2014-2020, the country's GDP and the volume of loans from commercial banks had a growing trend. The volume of loans to the real sector of the economy increased by 26.3% compared to previous years, and as of January 1, 2020, amounted to 211.5 trillion soums. The growth rate of loans to GDP amounted to 41.3%. From this, we can conclude that creative work is widespread in our country, the demand for money is growing, and this indicates an increase in the level of credit. However, the fact that the relative level of loans to GDP increased by only 0.1% compared to previous years shows that the loans allocated to the real sector in this country are insufficient (Figure1). Over the past 10 years, the volume of loans in Uzbekistan has increased 35 times, and bank assets – more than 23 times. In particular, during 2017-2019, the growth rates of assets and loans of commercial banks were high, especially in October 2017. This figure increased significantly. The main reason for this is the adoption of several regulations related to the banking system in recent years. In particular, the Resolution of the President of the Republic of Uzbekistan dated September 2, 2017, "On priority measures to liberalize the exchange rate", dated September 12, 2017 "On measures to develop further and increase the stability of the banking system of the Republic" – Decisions №. 3270 allowed to increase the financial performance of banks. On April 10, 2020, according to the international rating agency Fitch Ratings, the country's sovereign credit rating was maintained at "VV-" ("Stable" forecast).

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According to Fitch Ratings, the main factors in maintaining Uzbekistan's rating in the context of the global crisis caused by the COVID-19 pandemic are the availability of strong external and fiscal reserves, diversified export base and access to external financial resources. In our opinion, these factors will serve to finance measures to mitigate the negative impact of the global crisis in Uzbekistan, support economic growth and reduce short-term risks associated with high current account deficits and rising public debt. The establishment of the Crisis Fund (\$ 1 billion) under the Ministry of Finance to support the fifth against pandemics, employment, social payments, economic and investment activity, as well as targeted and temporary tax incentives by the government, credit payments to relevant sectors special emphasis was placed on the provision of deferral benefits (in the amount of \$ 3 billion).

In addition, the report of the international rating agency Moody's, published on April 8, 2020, states that the forecast of the banking system of the Republic of Uzbekistan has been maintained at a "stable" level. The main factor was that the banking system of the Republic is more resistant to the effects of the Coronavirus pandemic than in the CIS countries.

The fact that the public sector in Uzbekistan has a significant share in the country's economy and banking system and creates material reserves, the disruption of economic activity due to the spread of coronavirus limits the impact on the quality of bank assets. Therefore, we believe that strong material reserves and previous large gains are sufficient to cover the losses incurred due to the deterioration of economic conditions. However, the growth of loans in state-owned banks will increase the pressure on their liquidity reserves. The following factors have a positive impact on the stability of the banking system of Uzbekistan:

- the predominance of loans to state-owned enterprises in the loan portfolio of the banking system and the fact that these borrowers can rely on government support will increase the reliability of loans and reduce the risk of deterioration in the quality of bank assets;

- despite the significant devaluation of the national currencies of the main trading partners of the Republic, the Russian Federation, Kazakhstan and Turkey, the value of the soum remained stable against the US dollar. It, in turn, limits the risk of inflation of assets denominated in foreign currency and ensures the stability of the level of capitalization;

- with reserves equal to 52% of GDP, the government of Uzbekistan has great potential to support the country's economy and banking system.

However, it is appropriate to list the following negative factors:

- measures taken by the government due to the coronavirus pandemic will have a negative impact on economic activity. It primarily affects small and private businesses, individuals, retail trade-in non-food consumer goods, catering, businesses in the field of transport and tourism, and other service organizations;

- net interest margin decreases as the financing costs associated with the efforts of banks to prevent the outflow of deposits as a result of the conversion of deposits in national currency into foreign currency. It, along with high backup fees, leads to a decline in profitability;

- the average liquidity ratio of the sector as of March 1, 2020, amounted to about 16% of total assets. Liquidity reserves come under pressure due to the growth of lending in state-owned banks.

Today, the state is doing a lot of positive work to develop business entities, including the provision of modern services and the production of competitive products. In addition, great attention is paid to their support and financial assistance. In particular, as a result of the pandemic, 30 trillion soums will be allocated through banks, and 500 billion soums will be allocated to the State Fund for Entrepreneurship Support through the Anti-Crisis Fund.

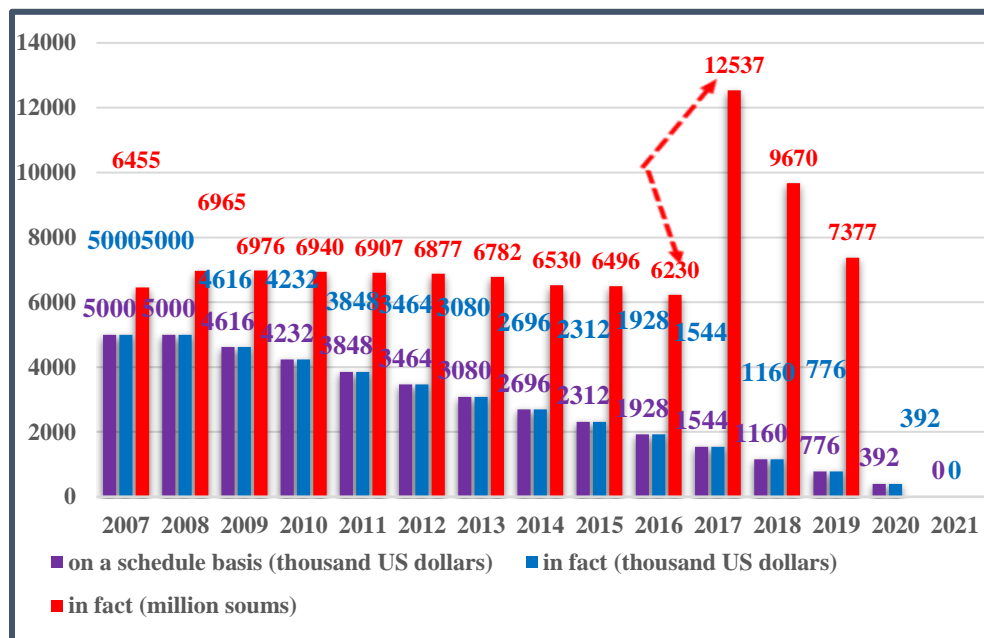


Fig. 1. Dynamics of repayment of foreign currency loans provided to Bukhara Hotel by Bukhara Tourist JSC

If we pay attention to the data in Figure 1, we can see that the fluctuation of our national currency against the foreign exchange rate in the repayment of a foreign credit line has increased significantly over the years. In particular, since September 2017, the transition to the establishment of the national exchange rate based on market mechanisms and the devaluation of the national currency against foreign currency has had a significant negative impact on the company's continued operations. In particular, the company's credit debt in 2016 (\$ 1.8 million) amounted to 6.2 billion. Moreover, in the following year, due to the devaluation of the soum, self-lending doubled to 12.5 billion soums (14 million US dollars). As a result, the company went bankrupt in a major financial crisis. In order to restore the activities of this enterprise, our government has allowed it to extend the repayment of foreign currency loans for a period of one year. As a result, over a year, the Bukhara Tourist Complex has significantly improved its financial situation. As a result, it was able to resume its activities. As a result, it was possible to save 170 jobs and increase it in seasonal periods, provide a wide range of high-quality hotel services and make a significant contribution to the development of the system in our country.

5 Conclusion

The development of business entities in Uzbekistan is the main basis for preventing the global crisis caused by the pandemic and the sustainable development of the economy. In this regard, the social aspects of the development of business entities have a special place in ensuring political and economic stability, reducing unemployment and employment opportunities for non-disabled people. In our opinion, special attention should be paid to the implementation of the following measures by commercial banks for the development of business entities:

1. It is necessary to introduce innovative online lending services in the banking practice of Uzbekistan.

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Online lending is widely used in banks in developed countries. However, to improve this type of service, it is necessary to improve the speed and quality of the Internet and increase the computer literacy of businesses. It is because innovative online lending can be characterized by meeting the demand from companies for lending practices without spending a lot of effort and time.

2. In order to eliminate cases of artificial credit dependence in the activities of economic entities in the credit practice of commercial banks, it is necessary to provide them with "credit leave".

In our opinion, the repayment of loans to businesses by commercial banks based on the period of production of loans to repay the principal and interest to overcome the crisis caused by the coronavirus pandemic would encourage its further development.

3. It is necessary to introduce "foreign currency credit leave" for customers, taking into account exchange rate fluctuations to stabilize the solvency of business entities on loans in foreign currency.

In our opinion, it would be expedient for commercial banks to allocate projects in foreign currency, taking into account the factors arising from the nature of the project and exchange rate fluctuations.

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