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COVID-19 AND THE BANKING INDUSTRY IN UZBEKISTAN: IMPACT AND SOLUTIONS

Abstract

Objective: the research highlights the negative impact of the COVID-19 pandemic on the banking and financial system of the world and especially in Uzbekistan's banking industry and analysis a number of practical reasons and ideas, such as what measures are being taken and should be taken by states and governments to mitigate it.

Methods: analysis, observation, generalization, analogy, comparison.

Results: what kind of measures should banks take during the Covid-19 pandemic; popularize distance banking services as online banking, mobile banking by commercial banks, introduce loan payment holidays to customers affected by the crisis, during Covid-19, and provide as much distance services as possible the need to continue their work during pandemic.

Scientific novelty: by analyzing the changes taking place in the banking and financial system of Uzbekistan during the Covid-19 pandemic, recommendations are made on how commercial banks can overcome the crisis without losses. Moreover, the advice given by world organizations and the work being done by them during pandemic are studied.

Practical significance: main provisions and inferences of the article can be used in banking industry to overcome issues which are occurring during Covid-19 pandemic and given recommendations can be useful for the future of commercial banks.

Keywords: banking and financial system, Covid-19, Central Bank, interest rates, economic crisis, online banking services, mobile banking services, loan payment holidays during Covid-19.

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Introduction

On 30 December 2019, three bronchoalveolar lavage samples were collected from a patient with pneumonia of unknown etiology – a surveillance definition established following the SARS outbreak of 2002–2003 – in Wuhan Jinyintan Hospital. Real-time PCR (RT-PCR) assays on these samples were positive for pan-Betacoronavirus. Using Illumina and nanopore sequencing, the whole genome sequences of the virus were acquired. Bioinformatic analyses indicated that the virus had features typical of the coronavirus family and belonged to the Betacoronavirus 2B lineage. Alignment of the full-length genome sequence of the COVID-19 virus and other available genomes of Betacoronavirus showed the closest relationship was with the bat SARS-like coronavirus strain BatCov RaTG13, identity 96% [1].

WHO continues to recommend that everyone performs hand hygiene frequently, follows respiratory etiquette recommendations and regularly clean and disinfect surfaces. WHO also continues to recommend the importance of maintaining physical distances and avoiding people with fever or respiratory symptoms. These preventive measures will limit viral transmission [2]. WHO has been in regular and direct contact with Member States where cases have been reported. WHO is also informing other countries about the situation and providing support as requested [3].

Today, the world is facing a more serious economic crisis than it witnessed during the global financial cri-

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sis. The coronavirus pandemic has dealt a major blow to the world's economies. In almost a week, many workers lost their jobs and salary. Restaurants, hotels and planes were all empty. Consumers and businesses are now facing sharp losses in their income, and bankruptcies are on the rise. Pressure on the banking system is growing and more default risks on loans are expected to increase. Many countries are expecting major blows to the financial sector, similar to the 2008 crisis. Although it is not possible to accurately predict the socio-economic damage caused by the global (COVID-19) coronavirus pandemic, economists have a general view that it will have a negative impact on the global economy and living standards. The economic damage caused by the coronavirus pandemic is mainly due to a decline in demand, i.e. the lack of consumers to purchase the goods and services available. These losses are particularly evident in areas of the service sector that are severely affected, such as airlines and tourism, hotel and restaurant business, and recreational cultural events. The same negative consequences apply to other industries. Growth prospects remain highly uncertain as well as The adverse impact on confidence, financial markets, the travel sector and disruption to supply chains contributes to the downward revisions in all G20 economies in 2020, particularly ones strongly interconnected to China, such as Japan, Korea and Australia [4].

Banks play a crucial role in making funds available and function as a "transmission mechanism" to support the near-frozen European economy. Acting as such requires banks to ensure their critical functions remain in place, and procedures to channel funds are as flexible as possible, without losing sight of their obligation to monitor debtors [5].

Nowadays, Uzbekistan is also carrying out some responses against Covid-19 pandemic and they have had a negative impact on economic activity. The main victims are small and medium-sized businesses, individuals, non-food retailers, catering companies, transport and tourism businesses and other service providers. Net interest margins decrease as banks' financing costs increase as a result of their efforts to prevent the outflow of deposits as a result of the conversion of national currency deposits into foreign currency. This, along with high reserve fees, leads to lower profitability.

The basic part

As of April 26, 2020, Uzbekistan has registered 1,869 cases of COVID-19 (8 deaths) [6]. The country's economy is facing a number of problems, such as falling commodity prices, declining demand from trading partners, declining export earnings and weakening remittances of Uzbek citizens. The government is taking comprehensive measures to prevent the spread of the virus, including: travel restrictions (international flights, domestic public transport and transportation), border closures (non-commercial), school and university closures, all trade outlets, except mines and pharmacies, were also suspended. Public events and religious gatherings were canceled. The government is asking employees to work over the phone or stay home. As of April 15, 2020, the following key policy measures are being taken: [7]

1. Fiscal measures

– expansion of health financing, including the increase in the quantity and quantity of medicines, salary of medical staff during Covid-19;

– increase the number of low-income families receiving social benefits;

– assistance to enterprises affected by interest rates;

– financing of public works in different regions to improve infrastructure and support employment. The government also plans to temporarily reduce social security contributions for individual entrepreneurs, delay additional payments on tourism, property taxes and land taxes, extend the moratorium on tax audits, and delay the 2019 income tax return (until August). The central government has asked local authorities to reduce taxes by 30 per cent and said it will give a 6-month grace period for paying property taxes.

2. Monetary and Macro-Financial Measures

The central bank has urged commercial banks to delay loan payments for firms in industries affected by COVID-19. Thus, state-owned banks are extending loan repayments for affected sectors, including national carriers. The central bank is monitoring the financial situation, but has not changed the requirements for capital liquidity of banks. In addition, on April 15, the central bank lowered the refinancing rate from 16 percent to 15 percent.

Banking is a global business. The current crisis will eventually pass and it may take time for the consequences to spread, but maintaining the integrity of the international community is crucial for the reliability and integrity of the global financial system. To do this, international organizations such as the Financial Stability Board and the Basel Committee on Banking Supervision need to work around the clock.

In such a difficult situation, the International Monetary Fund makes a number of recommendations to main-

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tain the demand and confidence in the banking system and the activities of banks. They are: (Figure 1) [8].

Don't change the rules

In times of crisis, the introduction of new laws in banking is likely to lead to confusion. Not all banks will be able to implement the changes remotely. For this reason, it is good that they are focusing on the existing operations.

Encourage loan modification

Supervisors need to communicate clearly with banks to be proactive in rescheduling the loan portfolio for borrowers and sectors that have been hit hard but temporarily. They should also remind banks of the flexibility of credit risk management and the accounting standards for violations in these cases. Accounting authorities have helped auditors explain how to see such changes as the economy begins to recover.

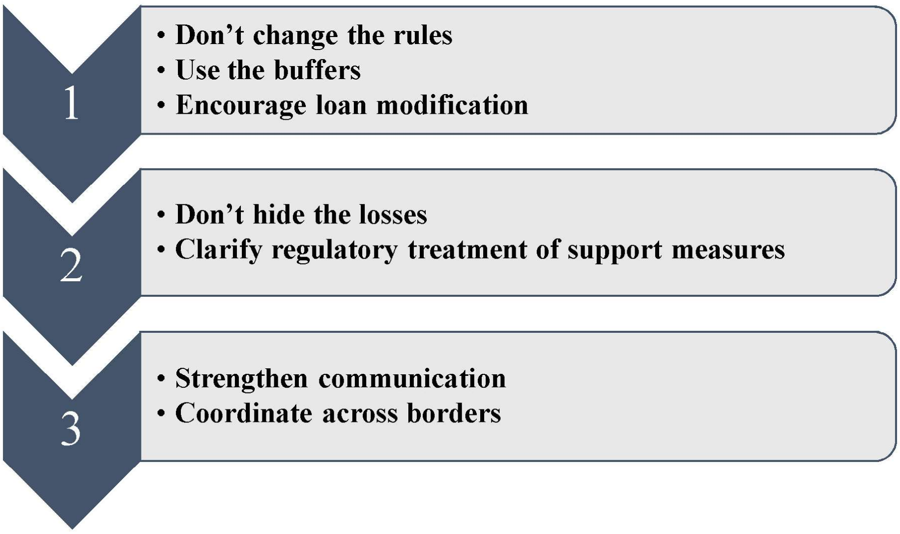

Figure 1. Advice from the International Monetary Fund on what to do in banking during the COVID19 pandemic

Banks, investors, shareholders and even taxpayers need to be prepared for losses and not hide them. Transparency only will be beneficial for all.

Clarify regulatory treatment of support measures

Financial measures taken by banks and regulators, including measures directly aimed at borrowers, credit guarantees, payment holidays, direct transfers and subsidies – Pre-determining how they will be treated in addition to the existing guidelines within Basel Capital will help overall transparency.

Encourage constant communication between supervisors and banks, especially working remotely with colleagues, customers and supervisors on a regular basis, especially in this unprecedented situation. Typically, reporting requirements in critical areas such as liquidity and creditors' positions are strengthened in times of crisis, but given operational interruptions, it may make sense to leave other requirements for insignificant data to evaluate the financial statements. Moreover, WHO is working with its networks of researchers and other experts to coordinate global work on surveillance, epidemiology, mathematical modelling, diagnostics and virology, clinical care and treatment, infection prevention and control, and risk communication. WHO has issued interim guidance for countries, which are updated regularly [9].

Due to high pressure in banking and financial industry because of pandemic, experts say that the public sector in Uzbekistan has a significant share in the country's economy and banking system, and the creation of material reserves limits the impact of disruptions on the quality of banks' assets due to the spread of the coronavirus. Strong inventories and previous large gains are sufficient to cover losses from deteriorating economic conditions. However, the growth of loans in state-owned banks will increase the pressure on their liquidity reserves.

Moody's has assessed Uzbekistan's banking system as stable despite the impact of the Coronavirus pandemic. 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 the resilience of the country's banking system to the effects of the Coronavirus pandemic compared to the CIS countries. According to Moody's, the following factors are expected to have a positive impact on the stability of the Uzbek banking system: [10]

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i. 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;

ii. 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 Uzbek soum remained stable against the US dollar. This, in turn, limits the risk of inflation of foreign currency assets and ensures a stable level of capitalization;

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

Due to the Covid-19 pandemic, less use of cash is recommended. In this regard, in order to reduce the likelihood of infection during the quarantine period, according to the recommendations of the Republican Special Commission:

– Payment of pension payments at the initial stage, from May of this year, to pensioners living in Tashkent and Nukus cities and regional centers by bank cards;

– In the coming months, these measures will be gradually continued in the remaining areas.

In accordance with the Decree of the President of the Republic of Uzbekistan dated April 3, 2020 "On additional measures to support the population, sectors of the economy and businesses during the coronavirus pandemic", the Central Bank Deferment of payments on loans provided by banks to businesses and individuals until October 1, 2020, as well as penalties for overdue loans of borrowers, which adversely affected the activities of the introduced quarantine regime. A number of measures have been taken to create conditions for the application of sanctions and non-enforcement of foreclosures and to simplify existing procedures. At the same time, measures to ease control requirements have been communicated to commercial banks. However, during the fight against the spread of coronavirus infection, decisions to support borrowers who faced financial difficulties in commercial banks were not communicated to local branches, and there was no comprehensive public awareness campaign on these decisions. it is observed that the issue of support is not considered. In addition, customer communication channels (website, hotline, telegram-bot) are not provided [11].

In this regard, the Central Bank held regular briefings for the heads of commercial banks during the quarantine period on central TV channels, including Koronavirus. info, as well as communication channels to contact the bank through the media and bloggers (website), hotline, telegram-bot) with regular dissemination of information on the order of interaction with customers (including detailed answers to frequently asked questions) calls to carry. Here are some advices by the Central Bank of Uzbekistan: (Figure 2) [12]

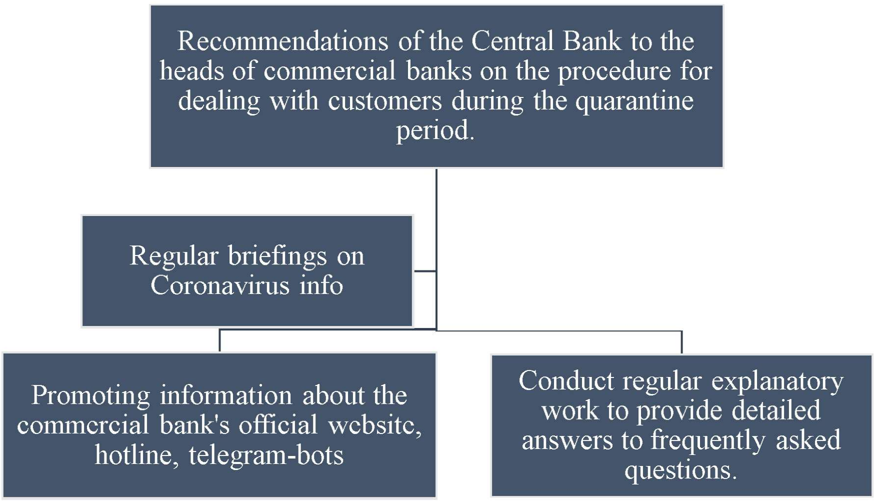

Figure 2. Recommendations of the Central Bank to the heads of commercial banks on the procedure for dealing with customers during the quarantine period

Due to quarantine, all educational institutions are closed temporarily as well as universities in Uzbekistan. University students should pay their tuition fees for spring semester but some measures interfering this process. With this regard Central Bank of Uzbekistan gives some recommendations to students who want to pay their tuition fee during quarantine. They are: [13]

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– First, by visiting a banking institution close to your place of residence, students can make a payment through the retail clearing system in cash or non-cash by providing a personal treasury account and other details opened for budget organizations (especially higher education institutions).

– Second, using the mobile applications of banks, it is possible to transfer the appropriate amount as a budget payment through a bank card.

In the current pandemic, banks are accepting customer applications remotely, through their websites, and delivering bank cards with the necessary identification.

After that, you can top up your bank card with cash through ATMs with cash-in function, and then make contract payments by attaching your bank card to the mobile application. Information on the dislocation of ATMs with Cash-in function is posted on the official website of the Central Bank.

– in addition, the student has the opportunity to apply to the "Call Center" of a branch of a commercial bank located near the house, and on the basis of this application, bank employees come to his house and transfer the contract money to the account of the university, strictly complying with all sanitary requirements.

In order to reduce the likelihood of the spread of coronavirus infection in quarantine conditions, taking into account the health of citizens, according to the recommendations of the Special Commission of the Government:

- Make payments for goods and products purchased instead of cash using bank cards;
- Measures are being taken to expand the payment of pensions, benefits and salaries through bank cards, and appropriate work is being done.

In turn, it is important to create the necessary conditions for the use of these cards in the field, that is, the population can easily use the funds on the card and have the opportunity to cash. Otherwise, the increase in objections is well known. Accordingly, the "Xalq Bank" was instructed to systematically organize the placement of ATMs in front of the buildings of citizens' assemblies of all mahallas, to replenish them with cash on a regular basis. Until such an opportunity is created, the officials of the "Xalq Bank" will transfer the funds received by the pensioners on their bank cards to the addresses of residence during the quarantine period through the terminals at their discretion. At the same time, the Central Bank and commercial banks will continue to work on the smooth use of bank cards, the full provision of outlets in remote areas with terminals and the expansion of opportunities to cash on the card. The State Tax Committee and its local branches are tasked with strengthening control over the provision of points of sale with all types of payment terminals (Uz Card and Humo) and their uninterrupted operation.

In addition to the above, many commercial banks offer customers the use of mobile applications, such as, online banking services. The card became urgently needed, but is it not possible to go to the bank under quarantine? If so, customers can use mobile apps and issue a card through the mobile app! For example, "Ipak Yuli" Bank offers citizens the opportunity to order bank plastic cards such as UzCard, Humo, Visa and UnionPay through the application (Figure 3) [14]. You do not have to be a customer of the "Ipak Yuli" Bank to do this. All you have to do is the filling application:

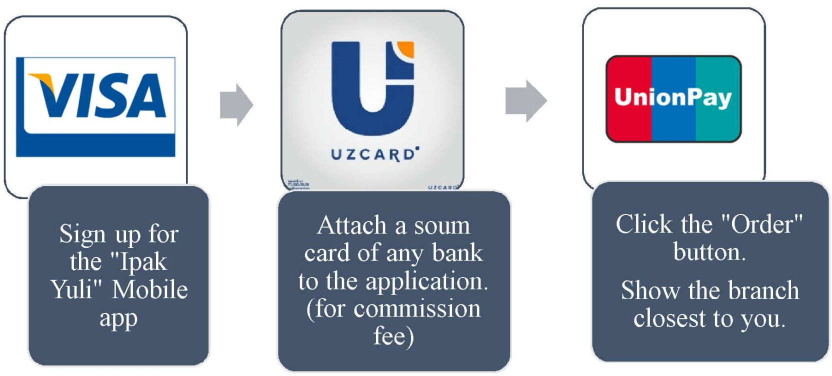

Figure 3. How to order bank plastic cards by "Ipak Yuli" mobile app

In addition, commercial banks now have the opportunity to transfer foreign currency sent directly through international money transfers to bank cards. Examples include "Turonbank", "Xalq Bank", "Agrobank", "Ipoteka Bank", "Hamkorbank" and "Ipak Yuli Bank" [15]. Living in remote areas where there is insufficient banking infrastructure for international money transfers and other retail banking services in order to provide customer-cen-

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tric remote banking services, as well as priority banking services in the conditions of quarantine aimed at preventing the spread of coronavirus infection in our country. The Central Bank has issued clear instructions to all commercial banks to provide services to the population.

Conclusion

In summary, the Covid-19 pandemic is having a negative impact on all sectors of the economy. In the banking sector alone, they have entered the economic crisis caused by the Covid-19 pandemic more strongly than the 2008 global financial crisis. However, this does not mean that they will be able to withstand this crisis completely. Globally, the GDP of all countries in the 2nd quarter is declining day by day. The main reason for this is the decline in production due to the pandemic and the closure of borders, reduced demand for exports. At present, the best way for banks not to stop working and to focus on digital banking. This is because banking operations are carried out without face-to-face contact with customers, which is the case during the quarantine period.

More than ever, commercial banks should focus on improving distance banking services to prevent the spread of coronavirus infection and create additional convenience for bank customers. They should do implement following actions to their banking service:

- In every banks should have the opportunity to perform important banking services online (sitting at home) in the mobile applications, such as utility and tax payments, money transfers, deposit operations;
- Banks should provide online loans. If customers need a loan, they should be able to use banking services such as online microloans and credit cards through the mobile apps of the respective banks. Individuals should have the opportunity to get online microloans through bank cards using mobile applications of commercial banks;
- Banks should provide information on these types of services and their terms should be obtained through the official websites of banks, social media pages and mobile applications.

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