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# COMMERCIAL BANKS INVESTMENT OPERATIONS RELATED TO SECURITIES

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**A R T I C L E I N F O.**

**Keywords:** investment operations, legal-institutional infrastructure, securities, bank risks, investment strategies, bank investments.

**Abstract**

This article analyzes the investment operations of commercial banks related to securities, the role of these operations in the banking activity, economic efficiency and the problems that arise in their implementation are considered. The author studied the current state of investment activity in the banking system of Uzbekistan and analyzed the factors affecting the development of the securities market. Also, on the basis of international experience, the mechanisms of effective management of investment portfolios of commercial banks are highlighted, and recommendations for their implementation into national practice are given.



## INTRODUCTION

In the conditions of rapid changes in the world financial markets and increased competition in the investment environment, the activities of commercial banks are not limited to lending, but are also diversifying through various financial instruments, in particular, investment operations related to securities. This situation allows banks to distribute risks, expand sources of income and ensure long-term financial stability. The stock market serves not only to ensure the free movement of capital, but also creates an opportunity for commercial banks to work with assets with high liquidity and less risk. At the same time, investment operations have become an integral part of banking activity in the world banking practice. For example, the banks of the USA, Great Britain, Japan and Germany have accumulated a lot of experience in obtaining effective income by directing a significant part of their assets to financial instruments such as bonds, shares, and derivatives.

## LITERATURE ANALYSIS

In Uzbekistan, although this field has entered a new stage, the potential of commercial banks' investment operations related to securities is not fully realized due to the fact that it is not yet fully formed. The limitation of market mechanisms, the low activity of investors, and the incomplete functioning of the legal and institutional infrastructure have a negative impact on this process. Therefore, this article systematically analyzes the theoretical foundations, practical aspects, existing problems and ways to solve them of the investment activities of commercial banks in the securities market. The relevance of the article is that along with the positive impact of investment operations carried out by banks on financial market stability and economic growth, the need for improvement of this activity is increasing.

Different, but complementary, approaches have been put forward in foreign and national literature for the in-depth study of investment operations of commercial banks related to securities. In international literature, the role of bank investments, in particular, operations in the stock market, in managing bank risks, ensuring liquidity and increasing profitability is widely covered. For example, John C. Hull (2018) argued in his work "Risk Management and Financial Institutions" that it is possible to achieve general financial stability by diversifying financial assets in the portfolio of banks[2]. Also, Bond Markets, Analysis and Strategies (2021), edited by Frank J. Fabozzi, provides an extensive analysis of the role of the bond market in banking investment strategies[3].

Based on the recommendations of the Basel Committees, in particular, the Basel III standards, banks received clear instructions on optimizing the share of securities in their capital adequacy and risk-based assets[4]. This leads to directing investment operations to risky but high-profit segments. In recent years, the number of articles on the investment activities of commercial banks has been increasing in the national literature. X.X. Kholmatov (2023) in his research analyzed the reasons for the interest of Uzbek banks in government securities[5] and emphasized the need to diversify the portfolio. S.R. Dzhorayev highlighted the legal and regulatory aspects of the activities of institutional participants in the stock market, particularly banks[6]. Also, statistical publications and reports of the Central Bank of the Republic of Uzbekistan, the Ministry of Finance and the "Tashkent" Republican Stock Exchange are an important source of information on the participation of banks in the securities market, investment volumes and market segments. The trends for 2022-2024 show that banks are giving more priority to short-term, state-guaranteed securities[1]. In conclusion, the analysis of scientific literature shows that:

- If the international experience is based on the systematic diversification of bank investments,
- In the national literature, the existing problems and proposals for their elimination are put forward. This shows the need to connect scientific and theoretical knowledge with practical activities.

**RESULT AND DISCUSSION**

During the research, the investment operations of commercial banks related to securities were deeply studied and the following main results were determined:

1. The share of securities in the structure of bank investments is limited: the investment portfolios of commercial banks of Uzbekistan are mainly dominated by government securities and short-term certificates of deposit. Participation in private sector stocks or bonds is very low.
2. Mechanisms of risk management are not fully formed: systems for full assessment and forecasting of risks (market risk, interest rate risk, credit risk) necessary for working with securities have not been implemented sufficiently. This leads to conservative investment decisions by banks.
3. There is a need to improve the legal and regulatory environment: There are some restrictions on the investment activity of banks in the current legislation. For example, there is some ambiguity in the requirements related to capital adequacy ratios, which makes it difficult for banks to invest in long-term or high-yield securities.
4. The infrastructure of the liquid market is not sufficiently developed: the capitalization of the Republican Stock Exchange, the volume of issue and the number of participants are limited, and there are no liquid financial assets in the volume necessary for banks. This limits the ability of banks to expand their investment strategies.
5. There are problems with personnel capacity: Investment departments of many commercial banks lack qualified specialists in the stock market. As a result, strategic and innovative approaches are not used enough in the formation of the investment portfolio.

6. Compared with international experience: in the USA, Japan or European countries, banks have wide freedom in investment activities and actively use complex financial instruments (car-like derivatives, ETFs, MBS). This allows to increase profitability and balance risk. In Uzbekistan, these tools are almost non-existent or unregulated.

The above analyzes show that a number of institutional, legal and technological conditions should be created to ensure the active participation of commercial banks in the securities market. After all, securities are important for banks not only as a source of income, but also as a means of maintaining macroeconomic stability. In particular, banks can achieve financial stability by diversifying the composition of their portfolios.

## CONCLUSION

In short, investment operations of commercial banks related to securities are one of the important, but underdeveloped areas of banking activity at the current stage. Although commercial banks of Uzbekistan mainly invest in state-guaranteed, short-term and low-risk securities, this activity is still carried out on a narrow scale. Current legislation, limited market infrastructure, insufficient human resources and weak investment risk management systems are among the factors that prevent banks from actively participating in this field. International experience shows that important goals such as financial stability, diversification of risks and increase in profitability can be achieved only if commercial banks become active participants in the capital markets. Therefore, a comprehensive approach is necessary for the development of investment operations related to securities in our country, in this direction, strengthening the institutional capacity of banks, introducing modern financial instruments, improving the legal and regulatory framework, and training professional personnel are of great importance.

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