
All Clear For Commercial Banks to Issue Bonds

The latest amendment into the Law on Securities Market gives the right for commercial banks of all forms to issue corporate bonds – a source of financing previously available to banks and entities of the open joint-stock form only.

On December 15 2009, the president of Uzbekistan has signed the law introducing an amendment - passed by the legislative chamber of parliament and approved by the Senate at the beginning of December - into the Law on Securities Market giving the right for every form of commercial bank to issue bonds. The latest amendment comes complimentary to an earlier presidential decree granting tax privileges to commercial banks with greater portion of medium and long term loans in their credit portfolios. According to this decree, a bank whose credit portfolio consists 35% to 40% of loans no shorter than 3 years of maturity will get a 20% discount when paying the tax on profit, 25% discount if such loans make up 40-50% of the credit portfolio, and 30% discount if loans with maturities of 3 years and higher make up 50% or more of a bank's credit portfolio. The current rate of tax on profit for commercial banks is set at 15%.

To minimize the number of defaults on bond obligations, the previous law did not permit closed joint-stock and privately owned banks to issue bonds, as closed joint-stock and private banks are traditionally considered smaller and less transparent than open joint-stock banks. However, the government has now extended the law to include every form of commercial bank as bond issuer.

During the period from 2009 to the end of 2010, commercial banks intend to place some 110 billion UZS worth of bonds primarily among legal entities. The Central Bank of Uzbekistan, and Banking Association of Uzbekistan aim to push the banking sector to actively participate in the fixed income market to raise capital and to finance operations.

The banking sector, lacking experience and expertise in issuing and dealing with bonds, has previously overlooked the option of raising funds through issuance of bonds in favor of deposits, seasoned equity issues, and commissions. Nonetheless, four of the some thirty banks did manage to issue and successfully place small volumes of bonds among investors in the past.

The economy of Uzbekistan has shown growth rates of some 7-9% annually in the past five years, with many parts of the economy still urgently in need of operating assets for various capital projects, and especially so for longer term projects. To sustain such growth rates, the government of Uzbekistan is implementing a program to encourage banks to increase their resource basis via issuing longer term bonds, and by creating incentives for the population and legal entities to deposit their cash in longer term saving accounts.

A total of 30 commercial banks, including seven closed joint-stock banks are operating in the country. According to the results of 1H 2009, the assets of banking sector amounted to 14.865 trln UZS, or 10.360 bln in USD equivalent. The country's banks held a total of 2.3 trln UZS, or 1.6 bln USD worth of capital.

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