

Company Liquidity And Financial Sustainability Issues

By

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Annotation

Ensuring the liquidity and financial stability of companies is one of the necessary conditions for ensuring their competitiveness. However, the low level of cash supply of the country's economy, the high cost of products under the influence of inflation and devaluation hinder the increase of liquidity and financial stability of companies.

The article identifies current issues related to ensuring the liquidity and financial stability of companies in the Republic of Uzbekistan and develops scientific proposals to address them.

Keywords: Company, liquidity, financial stability, inflation, devaluation, cost, credit, documented letter of credit, payment order, interest rate.

Introduction

In the New Uzbekistan Development Strategy approved by the Decree of the President of the Republic of Uzbekistan No. PF-60 dated January 28, 2022, the industrial policy aimed at ensuring the stability of the national economy and increasing the share of industry in GDP, increasing industrial production by 1.4 times, Continuous supply and increase of energy efficiency of the economy by 20%, further development of export potential of local industries with full utilization of existing opportunities are recognized as necessary conditions for rapid development of the national economy and high growth rates [1]. This makes it necessary to ensure the liquidity and financial stability of the country's companies.

At the same time, the high share of production costs in sales of manufacturing companies, the problem of insolvency in the economy, the relatively low share of cash in the current assets of companies hinder the liquidity and financial stability of companies.

Research methodology

The current liquidity ratio proposed by the experts of the International Bank for Reconstruction and Development is widely used in international practice in assessing the liquidity of companies [2]. According to this methodology, the current liquidity of companies is defined as the ratio between their current assets and current liabilities, and its minimum normative level is 1.25.

In the Republic of Uzbekistan, there is no state requirement for the minimum amount of authorized capital of manufacturing companies. Only financial institutions have set requirements by the state for the minimum amount of authorized capital. For example, the requirement set by the state for the minimum amount of authorized capital is 100 billion soums for commercial banks. soums, 2 bln. soums for microcredit organizations. soums, for pawnshops - 500 mln. soums [3].

In accordance with the Decree of the President of the Republic of Uzbekistan dated October 27, 2020 No PF-6096 "On measures to accelerate the reform of state-owned enterprises and privatization of state assets" in the central office of the Ministry of Finance tasks assigned:

*Preparation of financial statements for 2019-2020 on the basis of International Financial Reporting Standards (IFRS) and submission of the schedule of international credit ratings to the Cabinet of Ministers for approval by April 1, 2021;

* Development of medium and long-term development strategies for each company by April 1, 2021, with the involvement of reputable international consulting organizations on a competitive basis, financial recovery, operational efficiency;

Introduce a modern corporate governance system by July 1, 2021, which includes an audit of procurement and management systems and the formation of a "compliance system" and anti-corruption services;

By July 1, 2021, at least 30% of the supervisory boards and at least 3 executives of the enterprise management should be filled with qualified international experts by actively involving foreign experts (including citizens) in the supervisory boards and enterprise management on the basis of international competition [4].

Review of literature on the subject

According to Alekseeva, at present, the study, analysis and financial regulation of liquidity indicators is very important for enterprises, because there are enterprises that are not economically developed, insolvent, do not work effectively, do not use profits effectively, invest money efficiently. does not [5].

A.Sheremyat and R. According to Sayfullin, the liquidity of a company is such a level of mobility of assets that it ensures the continuity of timely and full payment of all obligations of the company and all legal payments to it [6].

According to K.Kurilov and A.Kurilova, enterprises have several levels of liquidity, and insufficient liquidity means that the company can not take advantage of discounts and favorable commercial opportunities. Significant insufficiency of liquidity means that the management of the enterprise has no freedom of choice and such enterprises are unable to make payments on their current obligations [7].

According to G. Savitskaya, the financial stability of an enterprise means that it can maintain a balance between its assets and liabilities to a level that guarantees its solvency in a changing external and internal environment [8].

According to Allen, the formation of a risk management system in companies involves the classification of risks of loss of financial stability, based on the generally accepted principles of risk management - Generally Accepted Risk Principles (GARP) [9].

N. Koschyk and T. According to Wilson, there is growing interest in faceted classification of risks of financial instability in post-crisis conditions [10].

Using faceted classification, it is possible to identify the expected financial stability risk and determine the qualitative description of the factors influencing it.

According to N. Liang, the financial stability of companies depends on the improvement of the direct risk monitoring system, with the main focus on liquidity risk, credit risk, investment risk and operational risk monitoring [11].

According to T. Bobakulov, the low level of money supply in the economy deepens the problem of mutual insolvency in the economy, weakens the cash flow of enterprises, prevents the stimulation of solvency [12].

This conclusion of T. Bobakulov is based on the existence of the problem of insolvency in the economy of the Republic of Uzbekistan due to the low level of monetary security.

Discussions

Ensuring the liquidity of companies is primarily determined by the fact that they have sufficient liquid assets. In turn, cash plays an important role in the structure of liquid assets of companies as the highest liquid asset.

Investments in highly liquid securities also play an important role in ensuring the liquidity of companies.

Table 1 *Composition and dynamics of current assets of JSC "TASHKENT OIL - MOY KOMBINATI", in percent [13]*

The structure of working capital	Years					Change in 2020 compared to 2016, f.p.
	2016	2017	2018	2019	2020	
Cash	25,1	31,4	28,0	0,1	0,4	- 24,7
Accounts receivable	27,4	18,8	14,2	27,6	28,8	1,4
Inventories	47,5	49,6	57,8	72,3	70,8	23,3
Short-term investments	0,0	0,0	0,0	0,0	0,0	x
Working capital - total	100,0	100,0	100,0	100,0	100,0	x

It can be seen from Table 1 that in 2016-2019 there was a downward trend in the share of cash in the total current assets of JSC "TASHKENT YOG - MOY KOMBINATI". In 2020, the figure was only 0.4 percent. This is a negative situation in terms of ensuring the liquidity of the enterprise.

According to Table 1, in 2016-2019 there was a tendency to increase the share of receivables in the total current assets of JSC "TASHKENT YOG - MOY KOMBINATI". This is a negative situation in terms of ensuring the liquidity of the enterprise.

It can be seen from Table 1 that in 2016-2019 there was a tendency to increase the share of inventories in the total current assets of JSC "TASHKENT OIL - MOY KOMBINATI". This is due to the decrease in the share of cash and receivables in the current assets of the Company during this period.

According to Table 1, the current assets of JSC "TASHKENT YOG - MOY KOMBINATI" did not include short-term financial investments. This indicates that the Plant does not conduct investment transactions with securities.

The practice of using cashless forms of payment plays an important role in ensuring the liquidity and financial stability of companies. In particular, the use of documented letters of credit allows companies to receive timely and full amounts of goods and services delivered. In the payment order, however, payment is not guaranteed.

Also, payments in the form of checks and collection of non-cash accounts are not guaranteed.

Using the data in the table below, we evaluate the practice of using cashless payment forms.

Table 2 *Structure of non-cash payments in the Republic of Uzbekistan [14] Percentage*

indicators	2015 y.	2016 y.	2017 y.	2018 y.	2019 y.	2020 y..
Payment order	99,45	99,52	99,39	99,42	99,17	99,05
Payment request	0,18	0,16	0,16	0,13	0,10	0,21
Collection	0,35	0,31	0,42	0,43	0,71	0,73
Documentary letter of credit	0,02	0,01	0,03	0,02	0,02	0,01
Jami	100,0	100,0	100,0	100,0	100,0	100,0

From the data of Table 2, it can be seen that in 2015-2020 in the total volume of payments made through non-cash forms of payment accounted for a very high share of payments made by payment orders. This indicates that the practice of using other forms of cashless payments is not developed at all and is a negative situation in terms of improving the practice of using non-cash forms of payment.

According to Table 2, as of December 31, 2020, the share of payments made through payment applications in the total amount of payments made through cashless payments in the country was only 0.21%, the share of payments made by collection was 0.73%. , the share of payments made through documented letters of credit was only 0.01 percent. However, in documented letters of credit, payment is fully guaranteed, and commercial banks will be able to earn a large amount of money.

In the Republic of Uzbekistan, timely collection of payments is currently a major problem for suppliers. This is explained by the following reasons:

- low level of money supply of the economy;
- instability of cash flow of enterprises;
- high cost in the amount of revenue from the sale of products at enterprises;
- low level of profitability of enterprises.

The high rate of devaluation of the national currency in the Republic of Uzbekistan and high interest rates on loans from commercial banks have a negative impact on the liquidity and financial stability of companies.

Admittedly, the rate of depreciation of the national currency in recent years has remained high

(Figure 1).

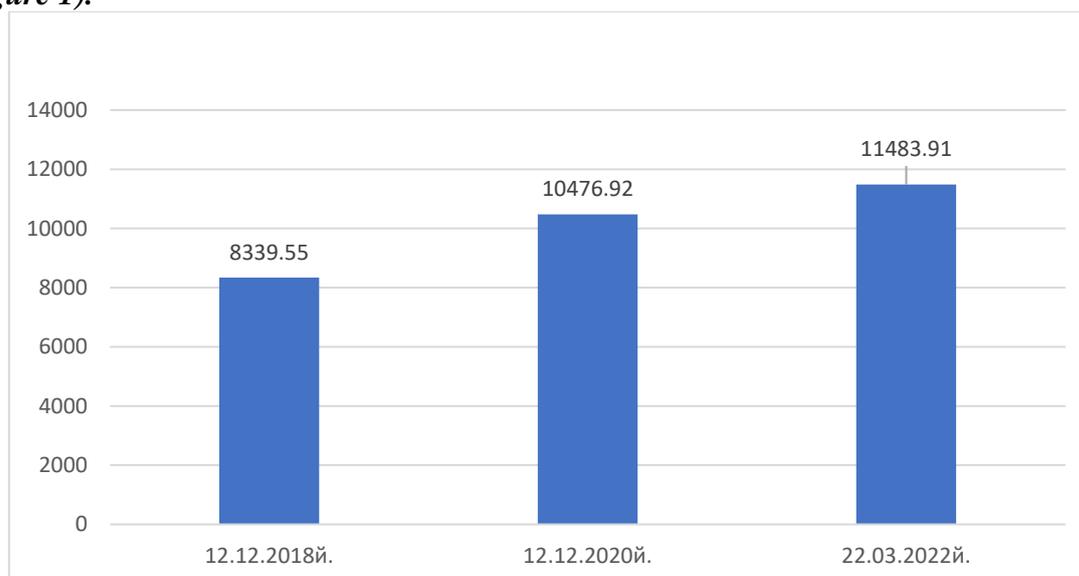


Figure 1. *Nominal exchange rate of the national currency - sوم against 1 US dollar, sوم [15]*

Figure 1 shows that during the analyzed period, the rate of depreciation of the national currency-sوم against the US dollar was significantly higher.

The high level of volatility of the national currency, in particular, its high level of devaluation, has a negative impact on the stability of macroeconomic growth rates. In particular, in the context of high devaluation, the investment activity of enterprises and banks will decrease.

High interest rates on loans from commercial banks in the Republic of Uzbekistan prevent companies from increasing their access to bank loans.

In 2021, the annual inflation rate in Uzbekistan will be 10%, and the refinancing rate of the Central Bank will be 14%. This, in turn, has led to high interest rates on loans from commercial banks.

Conclusions and suggestions

The small share of cash in the current assets of companies, the lack of investment in highly liquid securities has a negative impact on their liquidity.

The high rate of devaluation of the national currency in the country, high interest rates on loans from commercial banks have a negative impact on the liquidity and solvency of companies.

In our opinion, the following measures should be taken to ensure the liquidity and solvency of companies in the Republic of Uzbekistan:

1. To ensure the liquidity of companies, first of all, it is necessary to introduce in the activities of companies as a normative requirement of the current minimum liquidity ratio (1.25), which is generally accepted in international practice; second, it is necessary to ensure a low and stable level of the share of investments in highly liquid

- securities in current assets and not to tax the income of companies from these investments; third, by ending the practice of using covered letters of credit to eliminate companies' cash outflows from their business turnover.
2. In order to increase the volume of uncovered and unconfirmed documentary letters of credit opened by commercial banks with the status of a letter of credit on payment obligations of customers for goods and services, first, to form a group of customers belonging to the first and second categories of creditworthiness; it is necessary to open letters of credit of these forms on their payments; secondly, this group of clients should be allowed to use renewable and prepaid types of documented letters of credit; third, priority should be given to lending documented letters of credit through the credit line of the letter of credit bank.
 3. In order to eliminate external factors that negatively affect the financial stability of companies, first of all, it is necessary to prevent the appreciation of imports by ensuring the stability of the nominal exchange rate of the national currency; secondly, it is necessary to ensure low and stable interest rates on loans of commercial banks by improving the monetary policy of the Central Bank; third, companies need to expand the geographical diversification of exports.

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