



THE PRACTICE OF STRENGTHENING OF RESOURCE BASE IN PRIVATE BANKS

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Abstract

The current article examines the scientific views of strengthening the resource base of private banks, the capacity, dynamics and the structure of the resource base are analyzed and given corresponding conclusions, In the study, ways of strengthening the resource base of banks was discussed. Further, science work of economists and their notions on strengthening of the resource base of banks were surveyed. At last, conclusions were drawn and implications were made.

Keywords: private banks, resource base, deposit, capital, asset and loan

INTRODUCTION

The fundamental goal of the reforms in the banking and financial system of the country is strengthening the resource base of commercial banks of the republic and increasing the confidence of business entities and the population in the banking system. The ongoing reforms have a positive impact on the quality and resource base of the banking system.

As a result, in the condition of deepening market reforms in Uzbekistan, there are many vital issues related to the formation, placement and improvement of commercial banks' resources. Improving the quality of the resources of commercial banks is important in fields such as ensuring their liquidity and stability of the national currency, increasing the volume of export-oriented competitive goods and services in the country, and enhancing public confidence in the banking system.



During the years of the independence, a two-tier banking system has been formed and it is continuing to develop in the country, significant changes are taking place in the qualities and forms of banking services as well as the establishment and improvement of cooperation with foreign banks. However, some issues related to the efficient usage of resources by banks and strengthening the resource base have still remained relevant [1].

“Today, 70 percent of bank deposits are short-term deposits, and 90 percent of loans are issued for long terms. From now on, in the matter of attracting resources the banks are to “care for themselves”. Only in this way can they become a financial institution with a modern management system that meets market conditions” - said the President of the Republic of Uzbekistan in his own discourse [2].

Strengthening the resource base of banks will make a chance to fully satisfy the demand for long-term credit resources of the real sector of the economy. In particular, the fundamental goal of the reforms in the banking and financial system of the country is strengthening the resource base of commercial banks in the country and increasing the confidence of business entities and the population in the banking system.

In accordance with this, definition the tasks such as deepening banking system reform, increasing its resource base, strengthening its financial stability and reliability in the Strategy for Further Development of the Republic of Uzbekistan, approved by the Decree of the President of the Republic of Uzbekistan dated February 7, 2017, No. 4947 indicates the importance of the theme of this article [3].

Deposit attraction is one of the main operations of banks and deposits play an important role in its activities related to income-generating activities. Deposit operations of banks - operations on attraction and retention of deposits for a certain period of time, depending on the purpose of the deposit, on the basis of agreements concluded with banks with depositors. The major part of the funds raised by commercial banks is deposits. In international banking, deposits mean securities or money deposited in financial and credit institutions or banking institutions.

RESEARCH APPROACH

This research is focused on the measures aimed at improving the development of bank deposits in the commercial banks. Such research method as comparative analysis of the practical data, statistic tables and other relevant data have been widely used in the research. Basing on the research results appropriate proposals and recommendations have been developed.

ANALYSIS AND RESULTS

It is important to what kind of directions pay attention when research based on the resource (resource base) of the activity of economic subjects are carried out and explored the theoretical aspects of this subjects. In this situation, the first step is that the formation of the such terms as “resource” or “resource base” is primary. Afterwards, in accordance with formed conclusions, there will be an opportunity to form and report the theoretical basis directed to strengthen the resource base of commercial banks as the terms such as “resource” or “resource base” usually belong to strategic management.

Resource Theories were first researched by such classical economists as E. Perouz, B. Wernerfelt, R. Ramelt, D. Tis, J. Barney, M. Peters, K. Conner, K. Prahalad, G. CInerner, and others in their scientific research. At the beginning of the 21st century, it has become a powerful intellectual influencer, which includes the methodology of economic analysis and the management of economic knowledge in different conditions. The term “resource” is derived from the French word "ressource", which means money, auxiliary funds, opportunities, resources, resources and opportunities, sources of income, raw materials.

The resource conception (resource-based view (RBV) in English economic literature. It is called the "resource concept" in fundamental monography by V. S. Catkalo) is a view based on strategic relationship between the internal and the external status (in many ways, this status can be expressed with various ratings, advantages, the indicators of competitiveness, the market capability of subject, investment attraction, market-share rates, quantity, efficiency, profitability and other indicators) of a business entity in a multidisciplinary market economy conditions[4].

Theories as to resource base are similar to one another in research by B. Vernerfelt, C. Praxaladva G.Hemel and in the center of these research, the main concept is directed to develop and support the internal opportunities of economic subjects (the view representing concept “from interior to exterior” is opposite to them, that is to say, concept based on “from exterior to interior” belongs to M. Porter) [5].

As we study the theoretical sources and economic analyzes of theoretical sources written by foreign economists, we find that there is a great attention to the concept of "banking resources". For example, “the Commercial Banking” published by E. Reid, R. Kotter, E. Pill, and R. Smith[6], shows a bank balance in a gathered form and we find the fact that there is a personal attention to the sources of funds and the passive operations of commercial banks.

Another group of economists, such as D.Folfreman and F.Ford, considered bank resources to be bank liabilities when analyzing banking activity and suggested that they consisted of shareholders' funds and funds of the bank. Obviously, foreign authors have

focused more on banks' passives than expressing banks' resources via their own views and identifying opportunities of their usage [7].

According to the Russian scientist O.I. Lavrushin, the bank resource or "bank resource base" is the sum of its own and attracted resources at the disposal of the bank, which is used to carry out active operations [8]. In addition, the author emphasizes the efficient organization of the resource base of commercial banks, focusing on the capital and its optimal structure. Therefore, when describing the nature of the banks' resources, it is necessary to consider not only the sources of their resources, but also the importance of these funds for targeted activities of banks and their effectiveness [9].

Bank capital plays an important role in the structure of the resource base of the bank. Bank capital is important, since it implicates the survival probability of banks in two ways. Firstly, it plays a loss-absorption role because higher bank capital increases the buffers of banks against shocks to asset values [10, 11]. Secondly, it also serves a role to reduce risk. According to incentive-based theories, higher bank capital strengthens the incentive of banks to monitor their relationships with borrowers [12], or reduces the excessive risk-taking incentives of banks [13]. Another economist of our republic professor. A.A. Omonov commented on the resources of commercial banks in his research: "The resources of commercial banks are the financial value created by attracting free funds in the economy and the formation of private capital (capital) in certain conditions"[14].

In the tutorial called "Banking", co-authored by U.U. Azizov, T.M. Karaliyev and others: "Resource base of commercial banks is divided into several parts by types of resources allocated by the bank's own resources, resources equated to them and attracted funds"[15].

One of our local scientists U.D.Artikov commented on banking resources: "bank's resources are the sum of the bank's opportunities and funds helping to earn revenue consisted of private and attracted capital, which can be used to carry out banking activities in accordance with banking policy, which is the basis for the bank's profit[16]."

In A.Rakhimov's opinion, commercial banks deposit operations are the operations involving the transfer and saving the funds to the bank for certain purposes, based on the agreement between the bank and the client. So that, an increase in deposit funds of commercial banks in Uzbekistan can be explained by the growing trust of the population in banking system and the introduction of new attractive deposit types[17].

In our opinion, it is essential to pay special attention to the sources of formation in the definition of the resources of commercial banks should pay special attention to the sources of their formation as the formation of banking resources and resource base in market conditions, that is, the search for their sources, is becoming a priority task.

The formation of the private banks' resource base is an integral part of the rational use of the bank's assets and liabilities, including not only the attraction of new customers, but also the constant change of the structure of the resources.

The resource base of private banks is the total amount of borrowed and attracted funds of the bank on the condition of return on the free funds of legal entities and private persons, which are used for their own sources of resources, as well as for carrying out active operations with the purpose of earning income and maintaining the balance sheet liquidity.

Table 1. Structure of Private banks' resource base

i. Private capital:	- Equity capital
	- Added Capital
	- Reserve capital
	-Undistributed profits
ii. Attracted funds:	
a. deposits:	- Demand deposits
	- Time-deposits
	- Saving deposits
b. Non-deposit:	-Interbank loans
	- Other banks' funds
	- Subordinated debts
	- Others

In turn, the funds attracted by the saving's methods are divided into the funds of deposit and non-deposit sources. The main difference between bank deposits and non-bank deposits is that they have non-personal characteristics, that is to say, they are primarily non-affiliated. they are purchased through intermediaries on a competitive basis in the market, and secondly, the initiative of attraction of the bank belongs to the bank itself. Non-deposit resources are widely used by large banks, which are mainly located in established financial centers and have access to financial market instruments. Looking at the picture above, their resource base is split into two parts. Private banks now create their own resource base via their own funds and deposits. Private banks have enough problems with the formation of non-deposit funds.

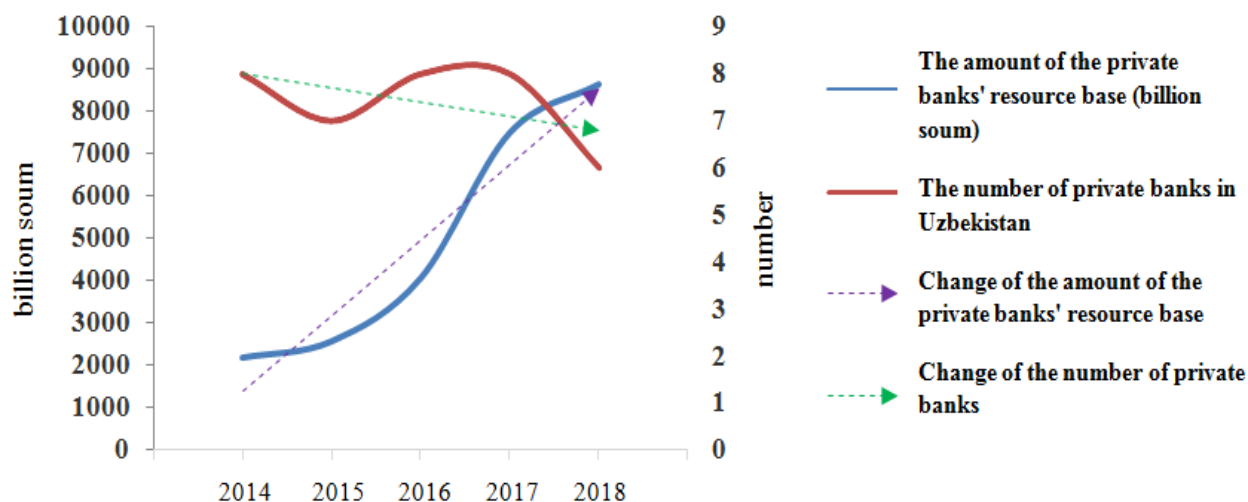


Figure 1. The amount of private banks acting un Uzbekistan and the dynamics of their resource base (billion soums) [18]

As we can see from the picture above, the number of all the private banks operating in the Republic has been declining over the years. As for January 1, 2019, of all 30 commercial banks, only 6 are private banks and we can also observe how painful the role of private equity in the banking system is.

However, the resource base of private banks has strengthened over the past 5 years, from 2182 billion soums in 2014 to 8641 billion soums by 2018, and the total resource base of private banks has increased 3 times within 5 years. This can be seen in the following figure.

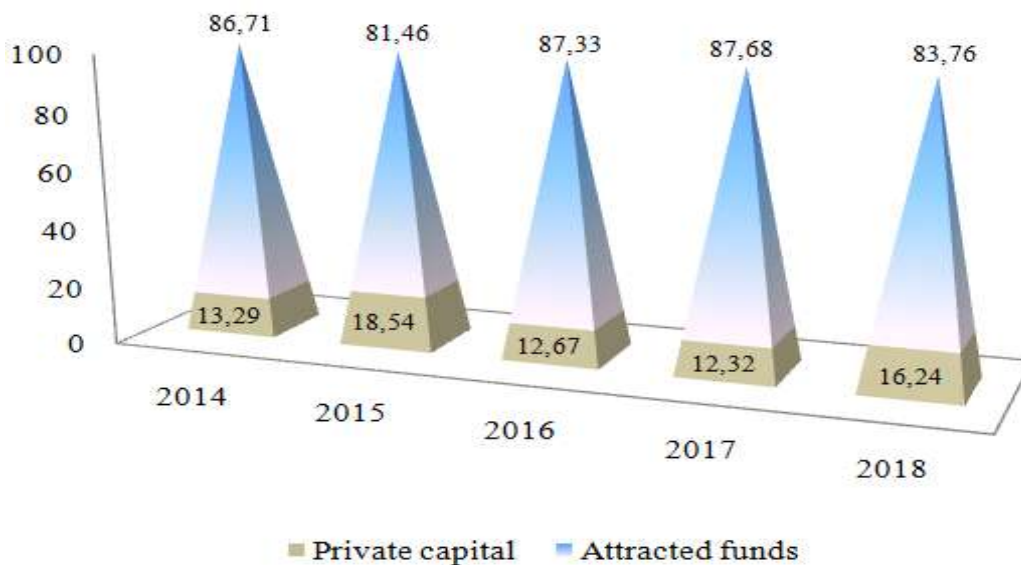


Figure 2. The analysis of the private banks' resource base structure in the Republic of Uzbekistan[18]

According to picture 2, the resource base of private banks increased by 6459 billion sums or 3.0 times in 2018 compared to 2014. This was provided by an increase by UZS 5346 billion in the amount of attracted funds and an increase by UZS 1113 billion in the quantity of private capital.

While positively assessing the growth of private banks' resource base, changes in the relative structure of private banks' resource base over the analyzed period increased their share of funds from 13,3% in 2014 to 16,2% in 2018. On the contrary, during the same period share of attracted funds declined from 86,7% in 2014 to 83,8% in 2018.

It is also necessary to evaluate this situation positively. Because the more increasing share of banks is in their own funds, the higher independence rate of the bank is. In addition, the adoption of the Decree of the President of the Republic of Uzbekistan dated September 12, 2017 No. PQ-3270 "On Measures for Further Development and Increase of Stability of the Republic's Banking System" also contributed to the rapid growth of private banks' own funds[19].

In accordance with decree, one of the main objectives of ensuring the stability of the banking system is that all banks operating in the country had to raise the minimum authorized capital by January 1, 2019 to \$ 100 billion sums.

In spite of these reforms, the resource base and total capital of private banks in the country remains low at the present time. Private banks' total resource base is only 4% of the total commercial banks' and 5,3% of their own funds. When analyzing the resource base of private banks, it is important to study their structure.

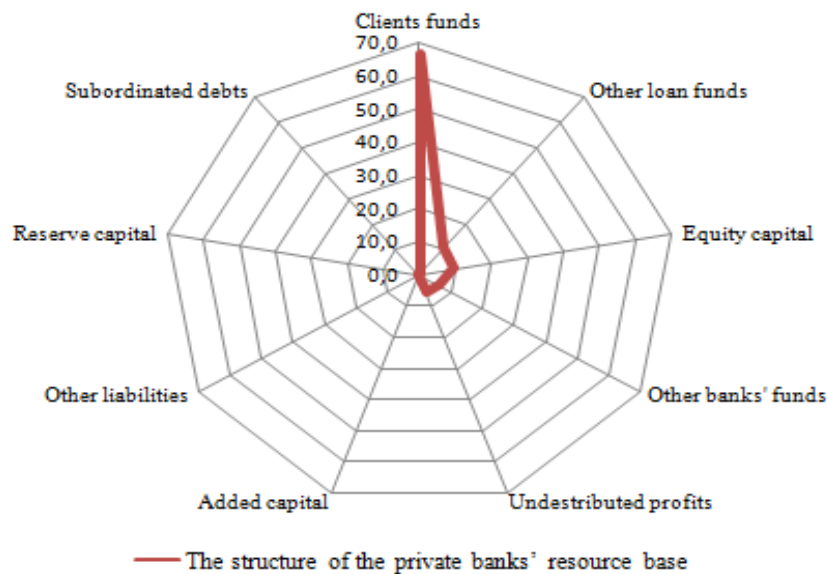


Figure 3. The structure of the private banks' resource base in the Republic of Uzbekistan, % (01.01.2019) [18]

As the picture shows, the main share in the resource base of private banks in 2018 is the client base. Its share was 66,5%. Subsequently, the largest contributing resources are other borrowed funds and equity capital. Their share is 10,5% and 9,7% respectively. As for January 1, 2019, the share of private banks' non-deposit funds in the formation of the resource base was 17,3%, with the bulk of other borrowed funds (10,5%).

Unfortunately, the share of debt securities and reserve capital issued by private banks in non-deposit operations is almost absent. They represent 0,01% and 0,1%, respectively, indicating insufficient capital formation of private banks. It is obvious that special attention should be paid to the optimization of the resource base structure of private banks.

CONCLUSION AND SUGGESTIONS

In conclusion, it is important to note that the commercial banks are sufficiently attracting free funds in the economy and managing the efficient allocation of these funds is one of their main tasks today. The main reason for this is the increasing demand for financial resources among commercial banks as a result of the deepening of market relations and further liberalization of the economy in Uzbekistan.

As a result, the increasing need of banks for low-cost and long-term funds has become one of the most important issues in the formation and effective management of resource bases. This situation has a positive effect on distribution of free capital among banks and strengthening competition among banks in attracting extra resources from financial market.

In accordance with the above research and analysis, the following recommendations have been formed:

1. It is necessary to increase the amount of additional capital to strengthen the resource base of private banks.

At first, private banks should emit subordinated debt bonds. At second, it is necessary to assert that the practice of opening credit institutions cooperating with banks should be developed.

In the banking practice of developed countries, it is common for private banks to open credit institutions, such as trusts, leasing, factoring and forfeiting companies. As a result, they will be able to develop their active operations and the amount of additional capital will increase.

2. Private banks should effectively use market tools and mechanisms to further strengthen their resource base. For this purpose, it is necessary to systematically introduce new types of deposits, taking into account the needs of the population and business entities, to implement measures for the emission of long-term bonds, deposit certificates and other securities, as well as active attraction of subordinated loans.

3. It is necessary to ensure broad sale of shares of commercial banks in the secondary securities market. First of all, it is necessary to bring the level of dividends paid by commercial banks to ordinary shares to the level which is acceptable for investors. At the same time, it is necessary to use the government's interest in short-term bonds as a basis to take into account the impact of inflation and exchange rates on investors' investments and returns on bank shares.

Many commercial banks have been capitalizing a major portion of their net income for the purpose of increasing their authorized capital, which results in a reduction of their paid dividends. It is necessary to use the capital formation matrix in the net profit capitalization and to keep the constant growth of dividends. Otherwise, the secondary securities market will not be able to generate stable demand for shares and determine the market value of bank shares.

We believe that the implementation of the above suggestions will help to create a proper resource base for private banks in our country. As a result, it will have a positive impact on the activities of private banks to strengthen the resource base. As a result, the resource base of the private banks will be further strengthened, which will enhance the public's confidence in the banking system and the growth of the national economy.

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