

ISSUES OF ATTRACTING PRIVATE CAPITAL IN BANK ACTIVITY AND STRENGTHENING THEIR RESOURCE BASE

Ernazarov Narmet Saparbayevich

Associate Professor, Department of "Banking and
Auditing" of the Tashkent Institute of Finance.

Annotation

In the article, at the current stage of the liberalization and modernization of the economy in the Republic of Uzbekistan, the priority tasks of the banking system reform strategy are researched and the necessity, means, factors and effective measures of attracting private capital to the banking system are scientifically justified.

Keywords: bank, private capital, strategy, banking system, level of bank capitalization, resource.

Introduction

In the Address of the President of the Republic of Uzbekistan to the Oliy Majlis on January 24, 2020, it was stated that the development of financial markets, including the stock market, should be one of our main goals in the new economic conditions, as well as the position and reputation of the international financial markets in the future. by introducing new financial instruments and issuing bonds in our country in cooperation with the leading international investment banks of developed countries, in particular, "J.P. Morgan", "Citibank", "Deutsche Bank", further expanding the scope of banking services, or the need to develop the banking system based on information technologies [1]. In addition, bold steps are being taken to gradually reduce the state share in the capital of banks, to create a healthy competitive environment in the system sector through the privatization of banks, to improve the quality of service, and to improve the quality and culture of lending in all respects.

The final goal of the fundamental reforms being carried out in the banking and financial system of Uzbekistan is aimed at strengthening the resource base of the banks of our republic, increasing the level of capitalization of banks, and increasing the trust of economic entities and the population in the banking system. In particular, "the issue of bringing the minimum amount of authorized capital of banks up to 500 billion soums by 2025" [2] and "the tasks of deepening the reform of the banking system, increasing the deposit base, and strengthening their financial stability and reliability" [3] are defined. In our country, "the strategy of reforming the banking system of the republic for 2020-2025 envisages gradual privatization of state shares in 6 banks" [4]. These tasks were set in the "Development Strategy of New Uzbekistan for 2022-2026" in a more strict and comprehensive manner: "...

these reforms require further increasing the share of private banks and strengthening their resource base » [5].

2. Literature Review

Commercial banks, like other economic entities, must have a certain amount of funds, that is, resources, to ensure their economic and commercial activities. In the modern requirements of economic development, the problem of organizing bank resources is of the first rank for the smooth operation of the bank. It can be explained as follows: with the transition of the economy to the market model, the state monopoly in banking will be terminated, the nature of bank resources will change in a positive direction during the formation of a two-tier banking system. In addition, the scale of the bank's activity, which is determined by the object of its asset operations, depends on the size and quantity of the resources they deploy, the amount of funds involved. Such a situation creates competition between banks for attracting resources [6].

One of the main tasks of the bank is to attract free funds as much as possible and to invest them in other profitable assets. In this regard, it is possible to cite as an example the scientific views of well-known foreign and local scientists reflected in their scientific research works, and according to foreign scientists M. Goodfriend and B. McCallum, "Bank capital propagates risks as follows. Negative technological risk, for example, reduces the profitability of bank loans, which makes it difficult for banks to attract loan funds. Therefore, banks must finance most of their business projects from their net worth (their capital), which requires an increase in their capital-to-credit ratio (or capital adequacy). Since bank capital consists mainly of retained earnings, it cannot be immediately adjusted, and bank loans are related to general investment" [7].

According to eminent economists D. Diamond and R. Rajan, "Banks can create liquidity precisely because it tends to deposit. Increased uncertainty makes deposits extremely vulnerable, creating a role for external bank capital. Greater bank capital reduces the likelihood of financial distress, but also reduces liquidity generation. The amount of capital affects the amount that banks can encourage borrowers to pay. Optimal bank capital structure affects the ability to create liquidity, costs related to bank problems and oblige the borrower to pay" [8].

In a research paper by foreign scholars David Miles, Jing Yang, and Gilberto Marcheggiano, "Banks finance most of their assets in case of losses with equity—by which we mean equity—profits rather than debt, because a larger real loss-absorbing buffer reduces the likelihood of a bank crisis, both past and recent events have argued [9].

According to famous scientists D. Besanko and G. Kanatas, "The value of the bank's equity can increase or decrease. However, regardless of changes in the value of a bank's equity capital, its stock price is the cause of forced recapitalization, according to recent empirical evidence. Stock price declines are likely to be larger the smaller the ownership stake held by bank managers, which is consistent with recent empirical evidence in the literature [10].

3. Analysis and Discussion of Results

In fact, only private banks with a solid resource base will have the opportunity to further strengthen customer confidence while ensuring their liquidity and financial stability. Therefore, in strengthening the resource base of private banks, the main attention is paid to the sources of funds in the liabilities of the bank balance. First of all, it is necessary to study the composition of the resource base of a private bank.

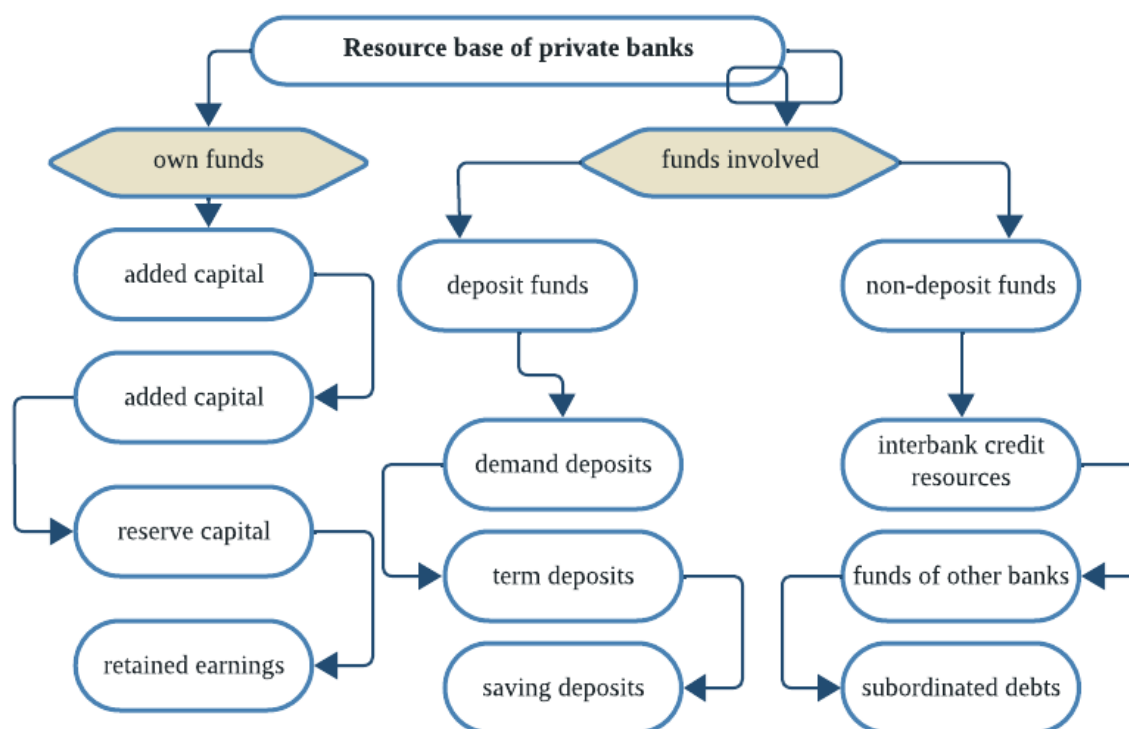


Figure 1. The composition of the resource base of private banks [11].

From the data of Figure 1, we can conclude that the resource base of private banks is divided into two. Currently, private banks are forming the resource base mainly at the expense of their own funds and deposit funds. In turn, according to the methods of accumulation, the attracted funds are divided into deposit and non-deposit resources. Non-deposit funds are widely used by large banks located in established financial centers and having access to financial market instruments. Private banks have enough problems with the formation of non-deposit funds [12].

The analysis of the current situation in the banking sector shows that there are a number of systemic problems that prevent the development of the banking sector in accordance with economic reforms and the needs of society, such as high level of state intervention in the banking sector, insufficient quality of management and risk management in state-owned banks, low level of financial intermediation in the economy.

Additional measures should be taken to increase the popularity of financial services, expand the penetration of banks into the regions, and ensure the provision of the same type of services in all settlements.

On the basis of modern service solutions in the banking system, it is required to take rapid measures to introduce information technologies and financial technologies, to ensure adequate information security, and to reduce the impact of the human factor in the provision of financial services [13].

To date, 13 out of 31 banks in Uzbekistan have state participation. The capital of these banks is more than 87 percent, and their assets are more than 85 percent of the total assets of the banking system. The reform of this system is defined in the decision of the President of the Republic of Uzbekistan No. PF-5992 dated May 12, 2020 in the form of a long-term strategy for the development of the banking sector. The strategy summarizes the main directions of the development of the banking sector, and approved the plan of measures in the form of a "Roadmap" for the reform of the banking system of the Republic of Uzbekistan in 2020-2025.

The strategy is aimed at increasing the efficiency of the banking system, ensuring financial stability, reducing the state share in the banking sector, as well as increasing the availability and quality of financial services [14].

As a result of the ongoing reforms, it is planned to achieve the following indicators by 2025:

- increase the share of assets of banks without a state share in the total assets of the banking system from the current 15% to 60%;
- increasing the share of banks' obligations to the private sector in the total liabilities from the current 28% to 70%;
- attracting at least three strategic foreign investors with relevant experience, knowledge and reputation to the authorized capital of at least three banks with a state share [15];
- increase the share of non-bank credit organizations in total lending from the current 0.35 percent to 4 percent.

It was determined that privatization of state-owned banks will be carried out in two stages according to the plan:

1. During 2020-2021, measures of institutional transformation (change of activity) were implemented.

2. The sale of the package of state shares to strategic investors through a tender was launched. In particular, it affected the following banks:

- With the support of "Ipoteka-bank" ADB and "Uzsanoatkurilishbank" ADB - International Finance Corporation;
- JSC "Alokabank" with the support of the European Bank for Reconstruction and Development and the Asian Development Bank;
- With the support of "Asaka" ADB - European Bank for Reconstruction and Development;
- ADB "Kishloq Kurilish Bank" and "Turonbank" ADB - taking into account the merger of these banks with the involvement of international financial institutions and consulting companies;

- AT "Khalq Bank" and ATB "Asia Alliance Bank" - sale of control package of shares to foreign investors [16].

In order to privatize the above-mentioned banks, a project department for transformation and privatization of commercial banks with a state share was established under the Ministry of Finance of the Republic of Uzbekistan under the leadership of the First Deputy Minister of Finance of the Republic of Uzbekistan. Uzbekistan, which has the authority to conduct negotiations, concludes contracts with international consultants engaged as consultants in order to change the banking systems [17].

4. Conclusions and Suggestions

Regarding ways to strengthen the resource base of private banks, the following should be noted:

1. It is important to constantly increase the share of the authorized capital in the structure of the bank's capital, because the authorized capital is the most stable part of the private capital along with the undistributed profit of the bank [18].
2. Private banks have the opportunity to strengthen the additional capital base by increasing the volume of subordinated debt obligations. In the practice of private banks, the absence of subordinated debt obligations indicates the weakness of their position in the market of long-term loans. Taking into account that subordinated debt obligations make up the main part of the bank's additional capital, as well as being a convenient and cheap means of attracting long-term resources, it is appropriate to expand the practice of attracting subordinated debt obligations by private banks [19].
3. In order to increase the share of time and savings deposits in the total deposits of private banks, it is appropriate to set a differential interest rate for time and savings deposits of legal entities based on their duration and amount [20].

In order to strengthen the resource base of private banks, taking into account the inflation targeting regime, to expand sustainable resource attraction and encourage these customers to make deposits in the bank in the future, banks should continuously introduce new, modern and attractive long-term deposit services [21].

The full introduction of these considerations into the activities of private banks, firstly, increases the efficiency of their activities, and secondly, has a positive effect on the strengthening of their resource base, and serves as an economic basis for their stable operation [22].

5. Literatura/Reference:

1. Mirziyoev Sh.M. Address of the President of the Republic of Uzbekistan to the Oliy Majlis and the people of Uzbekistan. January 24, 2020. - www.lex.uz
2. Decree of the President of the Republic of Uzbekistan dated May 12, 2020 No. PF-5992 "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025"

3. Decree of the President of the Republic of Uzbekistan dated February 7, 2017 No. PF-4947. On the Strategy of Actions for further development of the Republic of Uzbekistan//Collection of legal documents of the Republic of Uzbekistan. - Tashkent, 2017. - No. 6 (766). - p. 32
4. Decree of the President of the Republic of Uzbekistan No. PF-5992 of May 12, 2020 "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025"
5. Roadmap for the implementation of the Development Strategy of New Uzbekistan for 2022-2026 in 2022 - www.lex.uz
6. Кенжаев И. СУФУРТА ТАШКИЛОТИНИНГ ИНВЕСТИЦИЯ ФАОЛИЯТИ САМАРАДОРЛИГИНИ БАҲОЛАШНИНГ СИФАТ КЎРСАТКИЧЛАРИ //Iqtisodiyot va ta'lim. – 2023. – Т. 24. – №. 3. – С. 415-422.
7. Kenjaev I. In Allocating Financial Resources Of Insurers Increasing The Role Of Accumulative Life Insurance Ways //Turkish Online Journal of Qualitative Inquiry. – 2021. – Т. 12. – №. 7.
8. Abdullaevich N. I. The Role of Regional Investment Attractiveness in Attracting Foreign Direct Investment to the Country //Science Promotion. – 2023. – Т. 3. – №. 2. – С. 1-6.
9. Abdullaevich N. I. THE IMPORTANCE OF THE INVESTMENT CLIMATE IN THE INFLOW OF FOREIGN DIRECT INVESTMENT INTO THE COUNTRY //American Journal of Business Management, Economics and Banking. – 2023. – Т. 16. – С. 260-266.
10. Abdullaevich N. I. THE IMPORTANCE OF THE INVESTMENT CLIMATE IN THE INFLOW OF FOREIGN DIRECT INVESTMENT INTO THE COUNTRY //American Journal of Business Management, Economics and Banking. – 2023. – Т. 16. – С. 260-266.
11. Abdullaevich N. I. Mechanisms and Economic Necessity of Attracting Direct Foreign Investment //Genius Repository. – 2023. – Т. 24. – С. 60-65.
12. Abdullaevich N. I. Mechanisms and Economic Necessity of Attracting Direct Foreign Investment //European Journal of Economics, Finance and Business Development. – 2023. – Т. 1. – №. 7. – С. 19-24.
13. Abdullayevich N. I. IQTISODIYOTNI RIVOJLANTIRISHDA XORIJIY INVESTITSİYALARNING O'RNI //TA'LIM VA INNOVATION TADQIQOTLAR. – 2022. – С. 95-96.
14. Abdullaevich N. I. The Importance of Investment Attractiveness and The Role of Foreign Direct Investors in The Growth of The Country's Economy //Texas Journal of Multidisciplinary Studies. – 2023. – Т. 25. – С. 22-26.
15. Butaev J., Radjabov U. Conceptual foundations of improving the tax system problems and solutions //TRANS Asian Journal of Marketing & Management Research. – 2021. – Т. 10. – №. 4. – С. 91-98.
16. Ҳошимов Ж. ИҚТИСОДИЁТГА ХОРИЖИЙ ИНВЕСТИЦИЯЛАРНИ ЖАЛБ ҚИЛИШДА АҚШ ВА ХИТОЙ ТАЖРИБАСИ: https://doi.org/10.55439/ECED/vol23_iss5/a61 //Economics and education. – 2022. – Т. 23. – №. 5. – С. 363-369.

17. Ravshanbek O'g'li H. J. The Existing Problems In Attracting Foreign Investment To The National Economy And Ways To Overcome Them.
18. Ravshanbek O'g'li H. J. The Existing Problems In Attracting Foreign Investment To The National Economy And Ways To Overcome Them //The American Journal of Management and Economics Innovations. – 2021. – Т. 3. – №. 09. – С. 53-59.
19. Хашимов Ж. IQTISODIYOTGA TO 'G 'RIDAN-TO 'G 'RI XORIJIY INVESTITSİYALARNI JALB QILISH HAJMINI OSHIRISH YO 'LLARI //Economics and Innovative Technologies. – 2023. – Т. 11. – №. 4. – С. 93-99.
20. Tursunkulovich S. R. et al. Some Issues of the Formation and Development of Banking Innovations in the Republic of Uzbekistan //Eurasian Scientific Herald. – 2022. – Т. 6. – С. 109-116.
21. Tursunkulovich S. R. et al. INCREASING THE LEVEL OF CAPITALIZATION AS A BASIS FOR STRENGTHENING FINANCIAL STABILITY IN COMMERCIAL BANKS //European Journal of Interdisciplinary Research and Development. – 2022. – Т. 4. – С. 201-207.
22. Шомуродов Р. Т. и др. Пути совершенствования практики использования инструментов денежно-кредитной политики //Молодой ученый. – 2020. – №. 6. – С. 302-305.