



## **ISSUES OF FORMATION OF PRIVATE BANKS' RESOURCE BASE**

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### **ABSTRACT**

This article is devoted to the formation of the resource base of private banks operating in the Republic of Uzbekistan. The data are taken from the analysis of financial statements on the banking system issued by the Central Bank of the Republic of Uzbekistan. It covers the activities of 6 existing private banks in the Republic of Uzbekistan. To solve the problem, we used the regression analysis and correlation method. In this case, we draw the appropriate conclusions using the method of regression and correlation analysis of the factors affecting the resource base of private banks. The study found that the volume of assets of private banks in the country (bank size), the number of branches, long-term interest rates, return on capital, and return on assets are positively linked to the resource base of private banks. In addition, a conclusion was drawn on the elimination of abstract problems in the formation of the resource base of private banks.

### **KEYWORDS**

Private banks,  
resource base, ROA,  
ROE.

### **Introduction**

In the world banking practice, the resource base of the banking system is necessary to stabilize the current socio-economic situation and make important strategic decisions on the future development of each country. The formation of resources for all commercial banks plays an important role, as the composition and size of their resources directly expand the scope of active operations of banks. Therefore, the amount of profit they will receive in the future is the key to the success of banking activities. According to Tsyhanyuk, (2014) "These processes require banks to create their sufficient resource base, optimize the structure and strengthen it" [1].

At present, the issues of the resource base and strengthening of commercial banks, their level of capitalization and insufficient resource base, weakness in attracting and increasing the volume of time and savings deposits, and the weak attraction of subordinated debt obligations by them are not sufficiently disclosed. In particular, issues related to increasing the level of capitalization of commercial banks, ensuring a stable resource base, and further strengthening the resource potential remain relevant in ensuring the stability of the resource base of commercial banks.

The ultimate goal of radical reforms in the banking and financial system of the country is to strengthen the resource base of banks, increase the level of bank capitalization, and increase the confidence of businesses and the public in the banking system. In particular, "the issue of increasing the minimum

authorized capital of banks to 500 billion soums by 2025" [2] and "the task of deepening the reform of the banking system, increasing the deposit base, strengthening their financial stability and reliability" [3]. In our country, the "Strategy for reforming the republic's banking system for 2020-2025" [2] provides for the gradual privatization of state shares in 6 banks. These reforms require a further increase in the share of private banks and the strengthening of their resource base.

## Literature Review

In times of banking crises in international practice, the bank's resource base is the most important factor in ensuring its stability. Alexei Mints, Victoria Marhasova, Hanna Hlukha, Roman Kurok, and Tetiana Kolodizieva (2014) in their research found that the most optimal sources of the resource base of banks are the funds of other banks (bankruptcy rate -5.7%), funds of legal entities (bankruptcy rate -8.0%) and physical funds of individuals (bankruptcy rate - 28.5%) were recognized [4]. Given the crucial process of protecting banks from bankruptcy in these crises, it is necessary to set specific requirements to ensure their financial stability and further strengthen their resource potential. There are different views on economists' formation and strengthening of the bank's resource base.

Kurbanov R. (2021) studied the factors affecting 2 efficiency indicators (ROA and interest income) of private banks operating in the Republic of Uzbekistan [5]. Russian scientists Shershneva E.G., Kondyukova E.S. (2017) learned that the bank's resource base can be realized through the formation of its funds and borrowed funds [6]. In the textbook, "Banking", co-authored by Azizov U.O., Karaliev T.M., and others (2016), the resource base of commercial banks are divided into the bank's funds, equivalent funds, and borrowed funds by type of resources[7].

According to one of our local scientists, Professor Abdullaeva Sh.Z., (2019) "The resource base of commercial banks determines the level of its credit potential. The resource base created by the bank can be used to provide various loans and finance investments and other active operations [8].

Qurbanov R. (2019) The resource base of private banks is a source of their funds, as well as a condition for their return to the free funds of legal entities and individuals, used to increase opportunities for mobilizing financial resources and expanding the volume of active operations to maintain a high level of competitiveness and a positive image - the amount of borrowed and borrowed money [9]. Kurbanov R.B. (2020) the analyzed financial performance of private banks in Uzbekistan. He argued that the volume of bank assets, asset management ratio and operational efficiency are positively correlated with ROA [10]. Kurbanov R.B. (2021) is devoted to the formation of the resource base of private banks operating in the Republic of Uzbekistan [11,12]. Donnellan, J., & Rutledge, W. L. (2019) analyzed a theoretical and practical insight of RBV on the "what happened" aspect of JPMorgan Chase and then discuss their ability to achieve and maintain competitive advantage [13]. Ahmed, A., Khuwaja, F. M., Brohi, N. A., Othman, I., & Bin, L. (2018). They developed five research proposals based on a relevant review of the relevant literature and assessed the prospects and current state of the banking sector in Pakistan [14]. Mahmood, N.S. and Ahmed, E.M. were examines the mediating effect of risk management practices on the relationship between understanding risk and management in Iraqi private banks , risk identification, risk assessment analysis, risk monitoring, credit risk analysis, and financial performance [15]. Roy, A. analyzed business segment diversification of private banks in India [16].

## Materials and Methods

The analysis used the methods of statistical grouping, regression analysis, and correlation. The article examines the regression and correlation analysis period for 10 years (2013-2019) and identifies trends. Econometric analysis of multivariate regression and correlation factors was carried out based on data from 6 private banks in the country for 2010-2019. The dynamic panel data uses statistical data from the Central Bank of the Republic of Uzbekistan and an open database of private banks.

As a result, the resource base of private banks in the country was taken, and the causal factors were the volume of assets of private banks in the country (bank size), the number of branches, long-term interest rates, bank capital, and profitability. by assets. In the econometric analysis of this factor, we tested the variables of the correlation matrix. A multivariate econometric model was formed by selecting the most influential of the selected outcome variables so that the influence of the independent variable with the main effect on the dependent variable is not lost. The mathematical function of this model is presented as follows.

$$Y = \beta_0 it + \beta_1 * X_1 it + \beta_2 * X_2 it + \beta_3 * X_3 it + \beta_4 * X_4 it + \beta_5 * X_5 it + \epsilon it \quad (1)$$

$$RBPB_{i,t} = \beta_0 + \beta_1 * P_{basset}_{i,t} + \beta_2 * branch_{i,t} + \beta_3 * long\ term\ credit\ interest_{i,t} + \beta_4 * ROA_{i,t} + \beta_5 * ROE_{i,t} + \epsilon_{i,t} \quad (2)$$

$RBPB_{i,t}$  is the volume of the resource base of private banks for the period  $i$ ;

$\beta_0$ =constant,  $Y$ intercept;

$\epsilon_{i,t}$ =amount of error in section  $i$  during period  $t$ .

$\beta_1, \beta_2, \beta_3, \beta_4$  Ba  $\beta_5$  - are coefficients indicating the rate of change of the resource base relative to the independent variables.

$P_{basset}_{i,t}$ =i Bank volume of private banks in t-year (bank assets)

$branch_{i,t}$ =inumber of branches of private banks in t-year

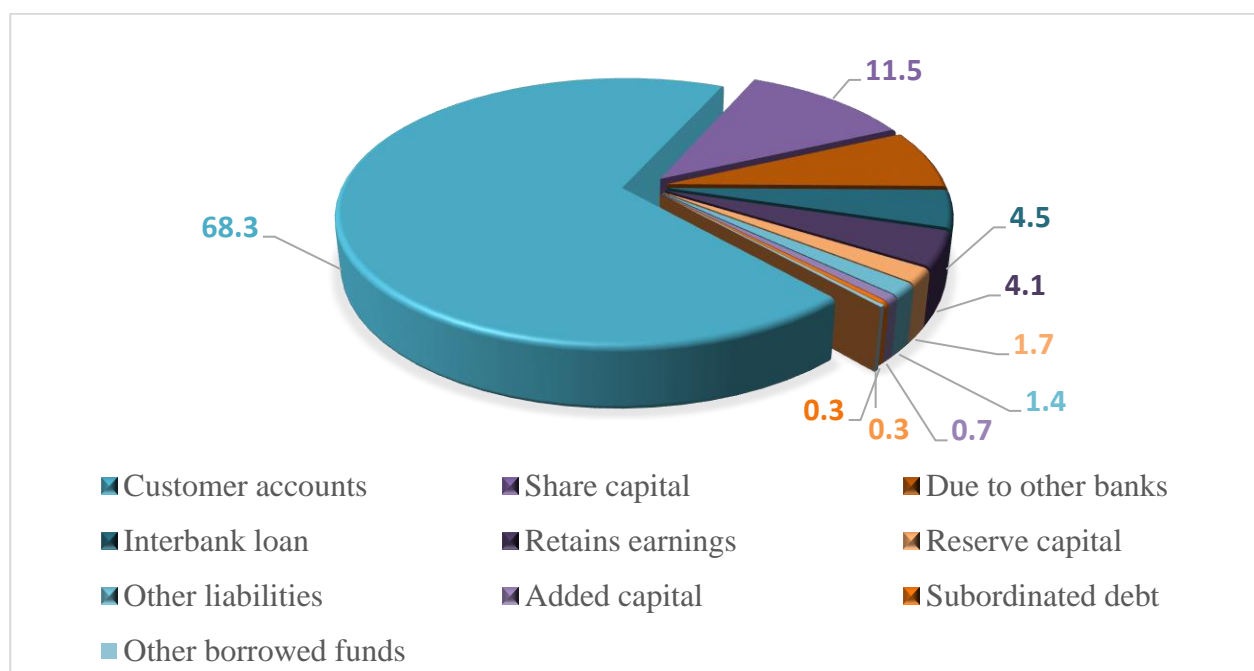
$long\ term\ credit\ interest_{i,t}$ = i average weighted interest rate on long-term loans of banks in t-year;

$ROA_{i,t}$ =return on assets of private banks for the period  $t$ ;

$ROE_{i,t}$ =capital return of private banks during the period  $t$ ; where  $t = 2010-2019$

## Results and Discussion

Despite the above reforms, at present, the resource base and total capital of private banks in the country, the share of the banking sector in total capital remains low. The total resource base of private banks is only 4% of all commercial banks and 5.3% of their funds[17]. When analyzing the resource base of private banks, the study of their composition is of particular importance.



**Fig. 1. The structure of the resource base of 6 private banks operating in the Republic of Uzbekistan (in percent for 2019).**

As can be seen from the data in Figure 1, the main share in the structure of the resource base of private banks in 2019 was 68.3% of customer funds. After that, a large share was taken by their authorized capital and funds of other banks. Their share is 11.5 and 7.1 percent, respectively. As of January 1, 2020, the share of non-deposit funds of private banks in the structure of the resource base amounted to 13.7%, the bulk of which were funds from other banks (7.1%). Unfortunately, the share of subordinated debt obligations and other loans issued by private banks in the structure of non-deposit operations is very small. The fact that they are equal to 0.3%, respectively, suggests that the additional capital of private banks is not sufficiently formed. It turns out that special attention should be paid to optimizing the structure of the resource base of private banks.

The results of the analysis and research show that the majority of private banks have not developed a specific strategic development policy for the short and long term to attract resources. This forces them to spontaneously pursue a deposit policy in the country's financial market. As a result, the deposit resources of some private banks are formed at the expense of relatively unstable funds, and their share remains quite high.

In connection with the above, we carried out an econometric analysis to assess the degree of influence of factors affecting the size of the recursive base of private banks.

In the first step, the diversity of the data was examined and the raw data were analyzed using descriptive statistics.

**Table 1. Result of Descriptive Statistics<sup>1</sup>**

	<i>PBRB</i>	<i>Pbasset</i>	<i>Branch</i>	<i>Long-term credit interest rate</i>	<i>ROA</i>	<i>ROE</i>
<i>Median</i>	4162.49	3954.68	24.7	14.59	3.95	24.19
<i>Maximum</i>	11031.3	11639.9	29	25.1	4.95	37.26
<i>Minimum</i>	638.9	484.2	15	10.5	2.84	14.89
<i>Std. Deviation</i>	3706.19	3876.67	5.18	5.29	0.69	6.21

The results of descriptive statistics show that the data for each selected variable is usually distributed and used for econometric modeling. Then we turn to correlation analysis. In this case, we use Pearson's correlation coefficient. We know that Pearson's correlation coefficient indicates the degree of interdependence of the dependent and independent variables.

**Table 2. Correlation Statistics<sup>2</sup>**

	<i>PBRB</i>	<i>Pbasset</i>	<i>Branch</i>	<i>Long-term credit interest rate</i>	<i>ROA</i>	<i>ROE</i>
<i>PBRB</i>	1,000					
<i>Pbasset</i>	0,998***	1,000				
<i>Branch</i>	0,688**	0,668**	1,000			
<i>Long-term credit interest rate</i>	0,939***	0,943***	0,416*	1,000		
<i>ROA</i>	0,541*	0,555**	0,232*	0,596**	1,000	
<i>ROE</i>	0,474*	0,485*	0,156*	0,476*	0,818***	1,000

Robust standard errors in parenthesis; all regressions include regional fixed effects

\*\*\*p <0.01, \*\*p <0.05, \*p <0.1

According to the above correlation matrix, the cross-correlation of the independent variables is low, which in turn means that the multicollinearity problem does not arise in our regression analysis. That is, the size of the resource base of private banks has a positive correlation with the volume of assets of private banks in the country (bank size), the number of branches, interest rates on long-term loans, bank capital, and return on assets. This means that as the volume of assets of private banks in the country (bank size), the number of branches, interest rates on long-term loans, the level of return on bank capital and assets increase, their recursive base increases.

The next step is the most important step in econometric analysis. This is regression analysis. In doing so, we run a separate regression analysis for each associated variable.

<sup>1</sup>Calculated by the author based on the STATA program

<sup>2</sup>Calculated by the author based on the STATA program

**Table 3. Regression Analysis (PBRB)<sup>3</sup>**

Independent variables	Dependent Variable: resource base of private banks (PBRB)			
	Coef.	Std. Err.	t	P - Value (P> t )
<i>Xbasset</i>	.42	.16	2.69	0.055
<i>Branch</i>	154.50	41.54	3.72	0.020
<i>Long-term credit interest rate</i>	313.76	93.52	3.36	0.028
<i>ROA</i>	-495.75	204.00	-2.43	0.072
<i>ROE</i>	53.18	22.86	2.33	0.081
<i>cons</i>	-5219.20	1673.67	-3.12	0.036
<i>Prob&gt; F</i>	0.0000			
<i>R-squared</i>	0.9989			
<i>Adj R-squared</i>	0.9976			

Based on the above calculations, the following multifactor regression model was formed.

$$XBRB = -5219.20 + .42 * Xbasset + 154.50 * branch + 313.76 * Long\ term\ credit\ interest - 495.75 * ROA + 53.18 * ROE \quad (3)$$

The corrected coefficient of correction in the formed model shows that the coefficient of influence of the volume of bank assets (Xbasset) on the number of branches (branches) and the long-term loan interest rate (Long credit interest rate), which is a factor influencing the volume of private banks' recursive base (XABR), is 5%. determined at the level of. The ratio of the level of return on capital (ROA) and return on assets (ROE) of the remaining 2 independent variable banks was determined at the significance level of 7-8%. The probability of the P-value of Fisher's F-statistic of the constructed regression model is less than 0.05, and the bank's asset size (Xbaktiv) is the number of branches (branches), long-term loan interest rate (Long loan interest rate), bank capital return (ROE) and asset return. (ROA) shows the effect of independent variables on the size of the private banks 'recursion database (NBR), which is considered a related variable. A diagnostic analysis was performed to determine the prognosis of the constructed model and it was found that the variables did not have autocorrelation and heteroskedastic problems.

## Conclusion

Summing up our econometrically formed model, it should be noted that taking into account other factors, the volume of bank assets amounted to 1 billion. An increase in the recursive base of private banks by 0.42 billion soums, an increase in the number of branches by 1 unit by 154.5 billion soums, an increase in the long-term interest rate of banks by 1%, a returnable base of private banks by 313.76 billion soums and an increase in profitability banking capital by 1% led to an increase in the recursive base of private banks by 53.18 billion soums, and an increase in the profitability of bank assets by 1% increased the recursive base of private banks. for 495.75 billion soums. we see that this leads to a decrease in the amount.

<sup>3</sup>Calculated by the author based on the STATA program



## Recommendations

In the course of our study, along with identifying existing problems in the process of forming the resource base of private banks, we identified ways to ensure the sustainability of the resource base of private banks by overcoming them as much as possible. In our opinion, these are:

1. It is important to constantly increase the share of the authorized capital in the bank's capital. After all, the authorized capital is the most stable part of private capital, along with the retained earnings of the bank.
2. Private banks have the opportunity to strengthen the additional capital base by increasing the volume of subordinated debt. The absence of subordinated debt obligations in the practice of private banks indicates the weakness of their positions in the long-term lending market. Considering that subordinated debt obligations are the main part of the bank's additional capital structure, as well as a convenient and inexpensive means of attracting long-term resources, it is advisable to expand the practice of attracting subordinated debt obligations by private banks;
3. To strengthen the resource base, private banks should constantly introduce new, modern and attractive long-term deposit services provided by banks to increase the attraction of sustainable resources, taking into account the inflation targeting regime and encouraging these clients to place deposits. back in the bank.

The full implementation of the above considerations in the activities of private banks, firstly, will increase their efficiency, and secondly, will have a positive effect on strengthening their resource base and will serve as an economic basis for their sustainable operation.

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