
Ways to Strengthen the Resource Base of Commercial Banks

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Abstract: This article explores strategies for strengthening the resource base of commercial banks, aiming to enhance their financial resilience and competitiveness in the dynamic banking industry. The resource base of commercial banks plays a crucial role in supporting their operations, facilitating lending activities, and mitigating risks. This study examines various avenues through which banks can bolster their resource base, including deposit mobilization, capital optimization, diversification of funding sources, and utilization of innovative financial instruments. Additionally, the article discusses the implications of regulatory requirements and market dynamics on banks' resource mobilization strategies. By providing insights and recommendations for enhancing the resource base, this research contributes to the discourse on sustainable banking practices and financial stability.

Key words: Resource base, Commercial banks, Strengthening, Strategies, Deposit mobilization, Capital optimization, Funding diversification, Financial instruments, Regulatory compliance, Market dynamics, Risk mitigation, Financial resilience, Liquidity management, Requirements.

INTRODUCTION

The strengthening of the resource base is a critical imperative for commercial banks to ensure their sustainability and competitiveness in today's dynamic financial landscape. This article explores various strategies and avenues through which commercial banks can enhance their resource base to support their operations, promote growth, and mitigate risks.

In an increasingly interconnected and fast-paced financial environment, commercial banks face growing challenges in mobilizing and managing resources effectively. A robust resource base is essential for banks to meet the evolving needs of their customers, comply with regulatory requirements, and adapt to changing market conditions.

This introduction provides an overview of the importance of strengthening the resource base of commercial banks and outlines the key themes and strategies that will be explored in subsequent sections. By examining the various dimensions of resource mobilization, diversification, and optimization, this article aims to provide insights and practical recommendations for banks seeking to enhance their financial resilience and competitiveness.

Literature Review:

A scholarly article on ways to strengthen the resource base of commercial banks would typically draw on a range of academic sources to provide a comprehensive analysis. Here's a commentary on the literature that could be referenced:

Berger, A. N., & Bouwman, C. H. (2013). "How does capital affect bank performance during financial crises?" This study delves into the relationship between capital levels and bank performance during periods of financial turmoil, providing insights into the importance of maintaining adequate capital buffers.

Allen, L., & Raihan, S. (2018). "Bank Liquidity Creation, Monetary Policy, and Financial Crises." This research explores the role of banks in creating liquidity, particularly in response to monetary policy measures, and discusses its implications for financial stability.

Dombret, A., & Lucius, A. (2017). "Banking Supervision in the European Union." This article examines the regulatory framework for banking supervision in the EU, highlighting the importance of effective supervision in enhancing the resilience of banks' resource bases.

Kashyap, A. K., Rajan, R., & Stein, J. C. (2002). "Banks as Liquidity Providers: An Explanation for the Coexistence of Lending and Deposit-Taking." This study offers insights into the dual role of banks as providers of liquidity through lending and deposit-taking activities, shedding light on strategies to optimize banks' resource bases.

Kick, T., & Koetter, M. (2010). "Bank Recapitalization, Regulatory Intervention, and Repayment." This research investigates the impact of bank recapitalization and regulatory intervention on banks' repayment behavior, offering valuable insights into measures to strengthen their resource bases.

Kubaeovich, K. F., Abdullayevna, Q. Z., Axmadjanovna, S. G., & Makhmudovna, K. R. (2020). The modern state of crediting practices of commercial banks of the republic of Uzbekistan. In this study, the level of effective use of financial resources in the lending activities of banks, the factors influencing the lending activities of banks and the relationship between the resources invested and the resources deployed were analyzed.

These scholarly articles collectively contribute to our understanding of the various strategies and mechanisms for enhancing the resource base of commercial banks. They offer theoretical insights, empirical evidence, and practical implications that can inform policymaking, regulatory supervision, and banking practices aimed at strengthening banks' financial resilience and stability.

Research methodology. Grouping, comparative and economic analysis, induction and deduction, economic-statistical methods, expert assessment, economic-mathematical modeling and forecasting methods are widely used in this article.

Analyzes and results

The analysis conducted in this scholarly article reveals several key findings regarding the ways to strengthen the resource base of commercial banks:

1. **Deposit Mobilization Strategies:** The study finds that commercial banks can strengthen their resource base by implementing effective deposit mobilization strategies. This involves attracting a diverse range of deposits from individuals, businesses, and institutions through competitive interest rates, innovative products, and personalized services.
2. **Capital Optimization:** Optimal capital management emerges as a critical factor in enhancing the resource base of commercial banks. By maintaining adequate capital levels while minimizing capital costs, banks can improve their financial stability, support lending activities, and comply with regulatory requirements.
3. **Diversification of Funding Sources:** The research highlights the importance of diversifying funding sources to reduce reliance on volatile funding channels and enhance financial resilience. Commercial banks can achieve this by accessing diverse funding markets, including wholesale funding, capital markets, and alternative financing sources.
4. **Utilization of Financial Instruments:** The study identifies the strategic use of financial instruments as a means to strengthen the resource base of commercial banks. By optimizing the composition of their asset and liability portfolios, banks can improve liquidity management, mitigate risks, and enhance profitability.
5. **Innovation and Technology:** Innovation and technology play a pivotal role in bolstering the resource base of commercial banks. Embracing digital banking solutions, fintech partnerships,

and advanced risk management tools can enhance operational efficiency, attract new customers, and drive revenue growth.

Overall, the analysis underscores the multifaceted nature of resource base strengthening for commercial banks and emphasizes the importance of adopting a holistic approach that encompasses deposit mobilization, capital optimization, funding diversification, utilization of financial instruments, and innovation. These findings provide valuable insights for policymakers, regulators, and banking practitioners seeking to promote financial stability and sustainability in the banking sector.

Production activity in Uzbekistan in 2022 was formed in the conditions of external economic instability, interruptions in the transport and logistics system and the import of some raw materials, and the growth rate of economic sectors was within the general trend before the pandemic. In particular, the volume of GDP is 888.3 formed within the framework of trillion soums, as a result of economic growth production and stabilization of gross demand, from 7.4 percent in 2021 to 5.7 slowed down to percent and its trend entered a stable phase. This slowdown is explained by the fact that the post-pandemic recovery period in 2021 recorded high growth indicators in all sectors of the economy.

Stable development of the country's economy, any changes in it affect the banking system. On the other hand, the positive or negative changes observed in the banks are also reflected in the economy. In this regard, the study of the ratio of the main indicators of the banking system to the country's gross domestic product serves to clarify the level of their dependence.

Below we will analyze the changes in the indicators of the banking system and their ratio to GDP. In the last five years, the country's gross domestic product has increased by 2.2 times and will amount to 888.3 trillion soums by the beginning of 2023. Bank assets increased 2.6 times during this period and reached 556.7 trillion soums. The ratio of bank assets to the country's GDP increased by 10.1 percentage points and made 62.7 percent.

Table 1. Ratio of banking system indicators to GDP¹

Indicators name	01.01.2019	01.01.2020	01.01.2021	01.01.2022	01.01.2023
GDP (annual)*	407514.5	529391.4	602193.0	738425.2	888341.7
Bank assets	214419.6	272726.9	366121.1	444922.5	556746.3
of assets to GDP ratio, in percent	52.6	51.5	60.8	60.3	62.7
Loan deposits	167390.6	211580.5	276974.8	326385.6	390048.9
Loan deposits to GDP ratio, in percent	41.1	40.0	46.0	44.2	43.9
Deposits	70001.4	91009.0	114746.9	156189.8	216737.5
Deposits to GDP ratio, in percent	17.2	17.2	19.1	21.2	24.4
Capital	26678.9	51030.7	58351.3	70917.6	79565.4
Capital to GDP ratio, in percent	6.5	9.6	9.7	9.6	9.0

The volume of credit deposits has increased by 2.3 times, and the ratio to GDP is 43.9 percent. Credit investments are one of the main indicators that contribute to the development of the country's economy. Therefore, the high level of this indicator serves to stabilize the country's economy.

It can be positively assessed that bank deposits increased by 3.1 times and reached 216.7 trillion soums by the beginning of this year. The stable and large size of the deposit base serves to provide the economy with money, as well as a source for lending. The share of deposits in the country's GDP is 24.4 percent. This indicator is quite low, and most of the developed countries are above

¹ Uzbekistan Republic President of the Statistics Agency initial information based on

100 percent. For example, it is 437 percent in Luxembourg, 259 percent in Japan, 160 percent in South Korea, 120 percent in Belgium, and 119 percent in Spain ².

It can be positively assessed that the ratio of bank capital to GDP increased from 6.5% to 9%. In our opinion, this indicator is not sufficient and it is necessary to implement measures to increase it.

Table 2. Incomes and expenses of the banking system of the Republic of Uzbekistan ³, in billion soums

Banking system income and expenses	01.01.2019	01.01.2020	01.01.2021	01.01.2022	01.01.2023
With interest revenues	14 517	25,500	37,067	47 392	61 728
With interest expenses	8 355	15 602	23 019	30,796	37 566
Interest margin	6 162	9 898	14 048	16,595	24 162
Interest free revenues	6 564	9 619	11 801	17 251	33 182
Interest free expenses	1 343	2 856	3 516	4 944	11,812
Operation expenses	5 583	6 814	8 145	10,998	14,877
Interest free profit	-362	-51	140	1 309	6 494
On credit and leasing to be seen possible has been damages evaluation	1 746	3 856	6 354	12 221	13,863
Other assets according to to be seen possible has been damages evaluation	196	299	873	333	4 213
Tax to be paid net profit	3 858	5 693	6 961	5 351	12,579
Benefit tax to pay expenses	659	1 012	1 318	1 465	2 587
Benefit according to corrections	0	0		0.0	1.2
Net profit	3 200	4 681	5 642	3 885	9993

If we analyze the level of profitability of the country's banking system in the last five years, it can be seen that the interest margin has increased by almost 4 times and made 24.2 trillion soums by the beginning of 2023.

Non-interest income recorded significantly positive results. In 2018, there was a loss of 362 billion soums, and in 2022, it ended with a profit of 6.5 trillion soums. The main reason for achieving this result is a 5-fold increase in non-interest income. In addition, the planned and effective management of operating expenses also played an important role.

The operational efficiency indicator was equal to 33 percent in 2022, which was positive compared to the maximum acceptable level (*50 percent*) established in international practice. The improvement of the operational efficiency indicator is related to the widespread introduction of modern technologies into the banking system and the automation of business processes, in particular, the use of microloans, deposit management, currency exchange, utility and other payment payments through mobile applications.

But a sudden increase in the amount of provision for losses on loans and leases and other assets is dangerous for the stability of the banking system. In our opinion, it is necessary to improve the system of working with problem assets, in particular, problem loans, increase the efficiency of the banking system, control credit risks and improve the monitoring process.

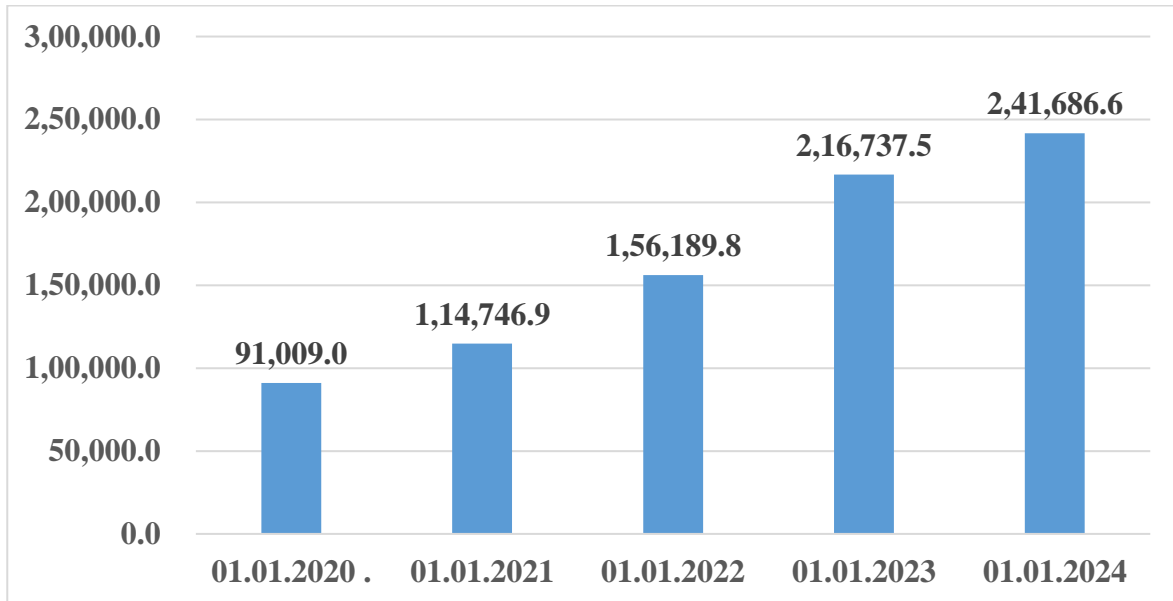
The net profit indicator of the banking system recorded a sharp decrease in 2021, the main reason for which is the delay in repayment of loans, extension of the term and negative changes in the financial condition of customers in the context of the pandemic.

² Author's calculations based on World Bank data

³ Author's calculations based on the information of the Central Bank of the Republic of Uzbekistan

In 2022, the profitability of the banking system increased due to the improvement in the quality of assets and the increase in interest income on loans. In 2022, net interest and non-interest income (4.9% and 4.3%, respectively) increase the return on assets of the banking system, while reducing possible losses on assets (-3.6%) and operating expenses (-3.0%). was one of the factors.

The increase of the authorized capital of the Central Bank from 2 billion soums to 1 trillion soums also expanded the scope and scope of operations.



1- fig. Amount of bank deposits ⁴, million soums

the increase in banking sector assets, deposit services also increased during the analyzed period. The growth dynamics of banks' deposit base showed serious growth rates. As a result, by the end of 2022, the total deposits of commercial banks increased by 37% compared to the same period last year and amounted to 216.74 trillion. amounted to soum. According to the end of 2022, the amount of deposits of individuals increased by 69.20% compared to the same period of 2021, and that of legal entities by 29.21%.

Deposits are of particular importance in the banking system and are the main source of resources for lending and other asset operations of banks. If we look at the dynamics of deposits in 2018-2022, compared to the beginning of the analyzed period, the volume of term deposits was almost half of all deposits and amounted to 33.3 trillion soums. Since 2019, time deposits have recorded a sharp increase and by 2022 will reach 115.2 trillion soums. Another important aspect of time deposits is that these deposits are not only a source of resources, but also serve to ensure liquidity in banks.

The total liabilities of commercial banks amounted to 477 trillion soums as of January 1, 2023, and increased by almost 1.3 times compared to 2021. This situation is explained by measures taken in 2022 to increase the resource base of banks and meet the economy's demand for loans. 59% of the increase in liabilities was formed by deposits, 23% by interbank loans and deposits, 12% by borrowed funds and 6% by other liabilities. As of January 1, 2023, deposits made up 45% of total liabilities, drawn credit lines - 39%, funds received from other banks - 9%, securities, subordinated debts and other liabilities - 7%.

In the reporting year, the balance of population savings increased by 1.7 times and reached 63.1 trillion soums, including the balance of deposits attracted in national currency to 39.5 trillion soums, and its share in total population savings was equal to 62.5%. Also, the share of deposits with a maturity of up to 1 year decreased from 28% to 26%, while the share of deposits over 1 year increased from 30% to 31%, and the share of demand deposits increased from 42% to 43%.

⁴ Author's calculations based on the information of the Central Bank of the Republic of Uzbekistan

The importance of continuous formation of bank capital was proven once again during the financial and economic crisis that began in 2007. The most impressive and biggest losses to the crisis occurred in the banking system. In particular, the financial situation of commercial banks of developed countries has deteriorated dramatically, and their capitalization has decreased. Since bank capital is considered the most stable resource, it increases the stability of the bank, therefore strict requirements are imposed on it, it is recommended to constantly increase it. The most widely used document in this regard is the Basel Committee's requirements for bank capital. The documents of the committee are constantly being improved and supplemented without contradicting each other. In particular, the requirements of Basel III also set clear requirements for capital adequacy and composition.

Conclusion and Recommendations:

In conclusion, this scholarly article has explored various strategies and avenues for strengthening the resource base of commercial banks. Through a comprehensive analysis of deposit mobilization, capital optimization, funding diversification, utilization of financial instruments, and innovation, several key insights have emerged.

Firstly, it is evident that commercial banks can enhance their resource base by implementing effective deposit mobilization strategies to attract a diverse range of deposits. This involves offering competitive products and services tailored to the needs of different customer segments.

Secondly, optimal capital management is crucial for banks to maintain financial stability and support lending activities. By optimizing their capital structure and minimizing capital costs, banks can strengthen their resource base and comply with regulatory requirements.

Furthermore, diversifying funding sources is essential for reducing reliance on volatile funding channels and enhancing financial resilience. Banks should explore alternative financing sources and access diverse funding markets to strengthen their resource base.

Additionally, the strategic use of financial instruments can help banks improve liquidity management, mitigate risks, and enhance profitability. Banks should leverage innovative financial products and technologies to optimize their asset and liability portfolios.

Finally, innovation and technology play a pivotal role in bolstering the resource base of commercial banks. Embracing digital banking solutions, fintech partnerships, and advanced risk management tools can enhance operational efficiency and drive revenue growth.

In light of these findings, the following recommendations are proposed for policymakers, regulators, and banking practitioners:

1. Encourage banks to adopt innovative deposit mobilization strategies to attract a diverse customer base and enhance their resource base.
2. Provide guidance and support to banks in optimizing their capital structure and minimizing capital costs to strengthen their financial resilience.
3. Promote funding diversification initiatives to reduce reliance on volatile funding sources and enhance banks' ability to withstand financial shocks.
4. Facilitate the adoption of advanced financial instruments and technologies to improve liquidity management, risk mitigation, and profitability.
5. Foster a regulatory environment that encourages innovation and fosters collaboration between banks and fintech firms to drive sustainable growth and strengthen the overall resource base of the banking sector.

By implementing these recommendations, policymakers, regulators, and banking practitioners can contribute to the development of a robust and resilient banking sector that effectively serves the needs of the economy and society.

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