



## WAYS TO STRENGTHEN FINANCIAL STABILITY AND RESOURCE BASE OF COMMERCIAL BANKS

Saidov Doniyor Abdullaevich

TMI, Associate Professor of the "Banking" Department

### Abstract

The article discusses the problems of financial stability and the formation of the resource base of commercial banks, the adequacy of bank capital, profitability indicators and the importance of increasing bank capital. It is important to increase the volume of long-term deposits, since the deposit base of commercial banks and its sufficiency are an indicator of the reliability of the banking system. The article also analyzes the key indicators characterizing the resource base of the bank and the financial stability of banks.

**Keywords:** stability of a commercial bank, stability of the banking system, financial stability, capital adequacy, private capital, profitability of bank assets, profitability of bank capital, credit investments, bank deposits, authorized capital.

### Introduction

Reforms in the banking system are aimed at creating a stable banking system that meets the requirements of the time, increasing competition in the banking services market and ensuring effective and mutually beneficial cooperation between banks and business.

Since the establishment of banks, the issue of strengthening their activities, ensuring their stability and risk management has become topical.

Increasing the level of capitalization and strengthening the financial stability of commercial banks is a necessary condition for ensuring the stability of the country's banking system.

Therefore, in order to further strengthen the capitalization of commercial banks, increase the financial stability of the banking system and expand their participation in financing investment projects and entrepreneurship, the President of the Republic of Uzbekistan dated June 16, 2017 "On additional measures to increase" financial stability and capitalization of commercial banks "Resolution PQ-3066 recognizes the deepening and sustainability of banking system reform, increasing the level of capitalization of banks and strengthening



financial stability as priorities for the development of the country's banking system.

It is extremely important to regularly and adequately study and analyze the practice of ensuring the financial stability of commercial banks. This is due to the fact that these analyzes will make it possible to develop scientific innovations and practical proposals aimed at increasing the financial stability of banks.

Gradual and targeted reforms of the banking system play an important role in the sustainable development of the country's banking system.

Ensuring the practicality of reforms in the activities of commercial banks is considered a priority area for further improving the financial stability and reliability of the banking system, creating favorable conditions for strengthening and developing the resource base of commercial banks.

The issues of deepening and ensuring the stability of reforming the banking system, increasing the level of capitalization and the deposit base of banks, strengthening their financial stability and reliability are reflected in the documents related to banking activities "1".

At the same time, decisions and decrees aimed at ensuring a higher level of organization of banking in accordance with international norms and standards, accelerating the process of capitalization in commercial banks, as well as a number of decrees of the Central Bank of Uzbekistan to increase the authorized capital of commercial banks are aimed at improving. Implement the measures taken by the Basel Committee to apply regulatory requirements for commercial banks in the activities of banks, strengthen the resource base of commercial banks, attract large amounts of free funds from the population and business by introducing new attractive types of deposits and savings, further improving the banking system "2".

The measures taken to reform and strengthen the country's banking and financial system will increase the level of capitalization of banks, expand lending to the economy, expand the range of banking services, and enhance the role of the banking system in economic development. ... At the same time, in order to further improve the quality of banking services and establish full-fledged cooperation with business, the tasks of dramatically improving the working methods of commercial banks, strengthening the attitude of the population and business to the banking system as a reliable institutional partner remain relevant.



As a result of reforming the banking system, the total assets of commercial banks as of January 1, 2021 amounted to 366.1 trillion soums. soums, and the total capital of the banking system - 58.3 trillion soums[4].

### Research Methodology

The article provides a systematic analysis of the literature on the study of the financial stability of commercial banks and its strengthening. Also, the scientific findings of studies carried out by foreign and domestic scientists in this area were studied, and independent approaches were formed.

#### Analysis of relevant literature

Currently, strengthening the resource base of commercial banks to ensure financial stability requires intensifying work to stimulate investment activity and organize banking activities in accordance with international norms and standards.

It has been scientifically researched by foreign economists and local scientists.

We will try to deeply study the views of various economists on the financial stability of commercial banks, the theoretical foundations of ensuring the financial stability of commercial banks.

O.P. Ovchinnikov and A.Yu.Bess say that the financial stability of banks means that banks perform their basic and emerging functions regardless of external influences [5].

According to the above scientists, the financial stability of banks means that banks are able to withstand external influences and, in turn, perform their functions.

S.A. Urazov believes that the financial stability of banks is the return of banks to a state of equality, a strong position as a result of various negative external factors [6].

G.G. Melikyan, on the other hand, argues that the definition of financial stability of banks should be approached from two points of view, dividing it into micro and macro levels. In his opinion, at the micro level, it is believed that the financial stability of banks lies in ensuring the continuity of banking activities while realizing the goals and objectives of banks in relation to clients in any situation [7].

At the macro level, banks believe that the banking system is designed to prevent various economic difficulties, to ensure the stability of the system, linking financial stability with various economic entities. According to this scientist, the



financial stability of banks is assessed by the fact that in any case, banks continue to work.

Yu.G.Veshkin and G.L.Avagyan's views the financial stability of commercial banks as an excess of income over expenses. The assessment of the financial stability of banks based on the income of commercial banks, as well as the payment of dividends in their favor, causes several controversies. This is due to the fact that the profitability of banks is a key indicator of their overall efficiency, but we believe that in order to determine the financial stability of banks, it is necessary to focus on the resources that make it up [8].

The financial stability of commercial banks depends on "... transformation of banking resources in the face of internal and external factors perform their functions for effective risk management". These views, in turn, do not fully reflect the essence of financial stability. Firstly, the activities of a commercial bank are described in a somewhat narrower context, and secondly, the author's attitude to banking liquidity and solvency seems somewhat ambiguous.

Professor Sh. Z. According to Abdullaeva, there are a number of factors affecting the solvency and liquidity of the bank, and their effective organization will ensure the stability of the bank. One of the factors influencing the financial stability of the bank is the trust in the bank from the side of others. If there is no trust in a bank, it cannot raise funds, and we all know that banks are mainly financial institutions that receive income from borrowed funds [9].

Doctor of Economics O.I. "The financial stability of a bank is not an abstract concept," Lavrushin said. This is the process of well-being, development of the bank, creation of reserve funds and incentives for employees, as well as forecasting the bank's activities. Not only the bank, but also its customers and shareholders, as well as the state are interested in planning and ensuring financial stability. Financial stability of banks is a guarantee of their economic interests and personal well-being [10].

J. Fell and G. Schinasi "Financial stability is the degree of resilience of funds of financial institutions, financial markets or financial infrastructure to risks under endogenous influences [11].

In addition to the tremendous advances made in the banking system, a number of challenges remain. There are problems with the low capitalization of commercial banks, the inaction of commercial banks as issuers and investors in the stock market, inadequate quality service to their clients, a weak resource base, low

profitability of some commercial banks, and a low share of bank capital and deposits in GDP and other similar problems.

Therefore, first we focus on the financial stability of the banking system, and then we get acquainted with the analysis of indicators that determine the financial stability of banks.

### ANALYSIS AND RESULTS

The financial stability of a bank is much broader and includes not only the ability to quickly convert assets into money, but also the ability of a commercial bank to timely and fully fulfill its payment obligations to its creditors - depositors, banks and the state. manner. Thus, liquidity acts as a necessary and indispensable condition for financial stability. Control over its implementation is assumed not only by a legal entity or an individual, but also by a specific external controlling body.

It is determined by indicators of liquidity, capital adequacy, asset quality, profitability and profitability.

Adequacy of bank capital was an important factor in ensuring the stability of the bank. This indicator is an important indicator not only for a commercial bank, but also for the stability of the banking system.

While ensuring the stability of the banking system, the focus is on its capital base, in particular, capital adequacy. This is due to the fact that capital is a stable source of financing for commercial banks.

Equity capital is an important and integral part of the bank's financial resources. With this in mind, we are looking at the capital of commercial banks.

Achieving a stable share of the share of the authorized capital of commercial banks in the structure of banks' liabilities will serve their financial stability.

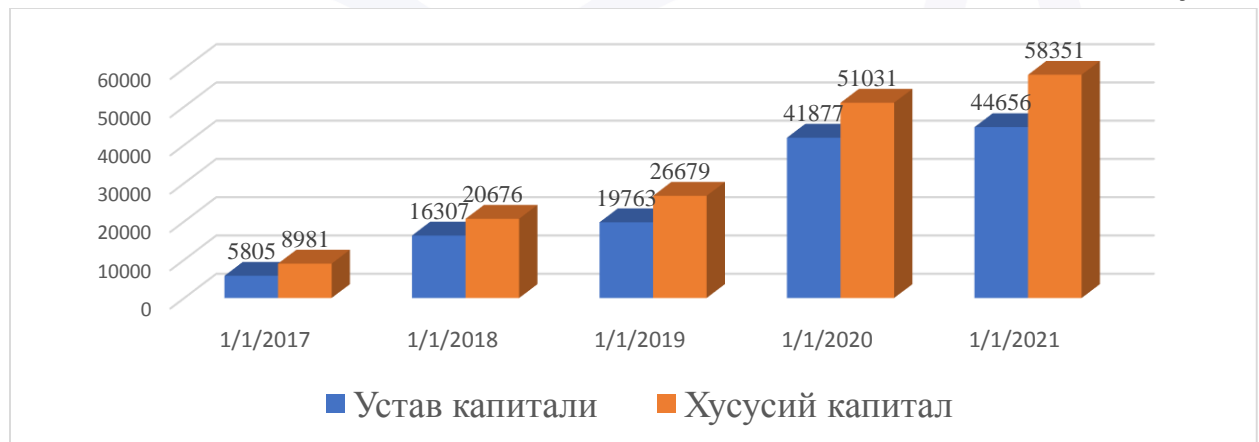


Figure 1. Dynamics of the authorized and private capital of commercial banks, [11] (billion soums).



The picture above shows that the authorized and private capital of commercial banks tended to grow in 2016-2020. That is, in 2016 the authorized capital amounted to 5805 billion rubles. soums, and by 2020 - 44656 billion soums. This, in turn, is assessed positively, and the more the authorized capital of commercial banks increases, the stronger the financial stability of the bank. That is, as of 01.01.2021, the authorized capital of banks is 76.5% of the total capital of the bank.

While ensuring the stability of the banking system, the main attention is paid to its capital base, in particular, to the adequacy of bank capital. The main reason for this is that capital is a stable source of financing for commercial banks.

The bank's equity capital is an important and integral part of its financial resources. Another important function of bank capital is the function of guaranteeing protection. Bank capital is the regulator that determines the long-term future, viability and growth of the bank.

Table 1 The capital adequacy ratio of the banking system [12].

Indicators	01.01.2018 y.		01.01.2019 y.		01.01.2020 y.		01.01.2021 y.	
	share, %	Bill. soum	share, %	Bill. soum	share, %	Bill. soum	share, %	Bill. soum
Tier I capital	17627,1	88,2	22146	91,4	43659	83,2%	48140	82,8%
Fixed capital	17580,3	87,9	22061	91,0	43622	83,1%	48028	82,6%
Additional capital	46,8	0,2	86	0,4	38	0,1%	113	0,2%
Tier II Capital	2365,7	11,8	2085	8,6	8808	16,8%	10022	17,2%
<b>Total regulatory capital</b>	<b>19992,8</b>	<b>100</b>	<b>24231</b>	<b>100</b>	<b>52467</b>	<b>100%</b>	<b>58162</b>	<b>100%</b>
Capital Adequacy Ratio	18,8		15,6		23,5%		18,4%	
Tier I capital adequacy level	16,5		14,3		19,6%		15,2%	

The above table examines the capital adequacy of commercial banks for 2017-2020, during which the capital adequacy of commercial banks in accordance with the norms established by the Central Bank of the Republic of Uzbekistan in 2017 was 18.8%, and by the end of 2020. - 18.4%. Achieved

The capital adequacy of commercial banks depends on two factors:

1. The amount of capital. The amount of capital must be sufficient to ensure the smooth operation of the bank.
2. The level of risk of assets. While the capital of commercial banks performs a protective function, the degree of capital adequacy directly depends on the asset management of a commercial bank.



Bank liquidity is the ability of a bank to timely and fully fulfill its obligations to depositors and creditors.

The country has a current liquidity ratio, the implementation of which can be seen in the table below.

Table 2 Analysis of liquidity indicators of commercial banks [12]

No	Indicators	01.01.2018	01.01.2019	01.01.2020	01.01.2021
1.	The ratio of highly liquid assets to total assets, in percent (min. 10%)	22,7	22,0	27,5	21,4
2.	Liquidity coverage level (min. 100%)	225,2	171	208,5	224,5
3.	Sustainable Funding Net Rate (min. 100%)	110,6	107,9	112,8	109,9
4.	Instant liquidity ratio (min. 25%)	40,1	30,9	47,8	67,4

This table analyzes the liquidity indicators of commercial banks, and we see that the minimum requirement for liquidity indicators of commercial banks in 2017-2020 is higher than the norm set by the Central Bank. The high liquidity of commercial banks determines the ability of banks to timely fulfill their obligations to customers.

Profitability indicators also play an important role in assessing the level of stability of the banking system.

Table 3 Analysis of the profitability of commercial banks [13], (in percent)

Bank name	01.01.2018 y.	01.01.2019 y.	01.01.2020 y.	01.01.2021 y.
Bank profitability	21,0	22,0	27,5	21,4
Return on bank assets	1,9	2,0	2,2	2,9
Return to bank capital	17,1	16,2	16,7	15,9

The table above analyzes the profitability of commercial banks, the return on assets of commercial banks for 2017-2020, the return on equity, the return on assets of all banks in 2017 was 1.9%, in 2020 - 2.9%. The total return on equity of banks in 2017 was 17.1%, and in 2020 - 15.9%.

Undoubtedly, one of the most important factors in increasing the bank's capital, which is the financial stability of commercial banks, is the bank's profitability.

The financial stability of banks is determined by the fact that they can timely fulfill all the obligations of the bank that may arise in the future.

It should be noted that one of the main factors that determine the financial stability of a commercial bank and the confidence of business entities in the bank

is its liquidity. Banking liquidity creates the following opportunities not only for banking, but also on a macroeconomic scale:

- 1) increasing the confidence of business entities in the banking system (psychological impact);
- 2) timely payment in the economic system (functional impact);
- 3) expansion of lending activity in the economy (income effect);
- 4) expanding the bank's ability to raise funds at the right time and in the required amount (cost effect);
- 5) the ability to change the shape of the balance in any way for the development of banking, i.e., expand the ability to adapt to changes in market conditions (elasticity effect);
- 6) creates conditions for protection against unforeseen losses from banking operations (risk reduction effect).

Table 4 Financial indicators of commercial banks of the Republic of Uzbekistan  
[12]

(billion soums)

No	Indicators	2016 y	2017 y	2018 y	2019 y	2020 y
1.	GDP	199325,1	302536,8	407514,5	511838,1	580203,2
2.	Bank assets	84075,0	166632	214419,6	272726,7	366121,1
	Share of bank assets in GDP (in%)	42,1	55,1	52,6	53,3	63,1
3.	Bank capital	8981,3	20676,1	26678,9	51030,6	58351,3
	Share of bank capital in GDP (in%)	4,5	6,8	6,5	9,9	10,1
4.	Commercial bank deposits	36341,0	59668,5	70001,4	91009,0	114746,9
	Share of bank deposits in GDP (%)	18,2	19,7	17,2	17,8	19,8
5.	Loan investments amounted to RUB billion. sum	53378,5	110572,1	167390,6	211581	276974,8
	Percentage of GDP	26,7	36,5	41,1	41,3	47,7





The above table shows that in 2016-2020 the volume of assets, loans and deposits of commercial banks in the country tends to grow from year to year, and their share in GDP also tends to grow. The higher the share of these indicators in GDP, the more positive it is, which, in turn, indicates an increase in the financial stability of commercial banks and a strengthening of the resource base.

The financial stability of commercial banks, their full availability of financial resources and the growth of credit resources play a very important role in the development of the country's economy.

### **CONCLUSION AND RECOMMENDATIONS**

The analysis of the scientific article showed that in order to ensure and strengthen the financial stability of the banking system of the Republic of Uzbekistan, its development in accordance with international standards and expand its role in ensuring high rates of economic growth, we have formulated the following proposals. and recommendations:

- Continuation of work on the implementation and achievement of norms, criteria and standards used in international practice in assessing the effectiveness of the banking system of the republic;
- improve the efficiency and transparency of commercial banks' operations;
- introduction of new services;
- Ensuring the stability of the banking system by increasing the level of capitalization of banks, improving the quality of assets and profitability;
- further strengthening of financial stability by increasing the profit of commercial banks;
- System analysis and improvement of the deposit and interest rate policy of commercial banks;
- Increasing the stability of the banking system by strengthening the resource base of commercial banks.

In short, an increase in the volume of credit investments by increasing the country's banking assets, capital, a stable resource base, increasing the volume of bank deposits, strengthening the financial stability of commercial banks, in particular, increasing their share in GDP. As a result, new jobs are being created.



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