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Research Article

Market Mechanisms Of Bank Resource Formation

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Annotation

The study of sources, ways, methods and instruments of bank resource formation allows to carry out active operations of the bank according to the origin of resources. Therefore, in this article, bank resources' mechanisms of money and capital market formation are studied. The characteristics of money market and capital market instruments were used for the analysis. The analysis also lists the liabilities and capital structure of Uzbek banks in 2016-2020. According to the analysis, the formation of banking resources in Uzbekistan is based on the need for the effective use of money market instruments and the development of capital markets in this regard. Situational and structural methods were used in the analysis.

Keywords: capital market, certificates of deposit, promissory notes, bonds, stocks, debt obligations, securities, credit financing, debt financing, repo.

INTRODUCTION

The CIS (Commonwealth of Independent States) and Uzbek economists point out that the formation of bank resources is usually based on their composition and that bank resources are attracted and consist of their funds. Borrowed funds of banks are reflected in the bank's balance sheet as liabilities and own funds as bank capital, and operations related to them are generally interpreted as passive operations.

Western economists do not generally interpret the liabilities and capital of banks as bank liabilities. This is because liabilities and capital are resources of a special nature. In our opinion, the interpretation of bank liabilities and capital as a whole and the view of different economic categories as the same type of operation requires studying market mechanisms for the formation of bank resources.

In contrast to the size of the economy and population of Uzbekistan, the total number of banks is relatively small, and the structure of their assets does not provide a genuinely competitive environment due to high concentration: at the beginning of 2020, the three largest banks with a state stake accounted for 54.9 percent of total assets. In this respect, structural transformation in the financial services sector and implementing contemporary market procedures in this field seem to be an essential component of the Republic of Uzbekistan's broader drive to reform reinvigorate the Uzbek economy. In a statement on December 28, 2018,

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Oliy Majlis stated that "the primary difficulty in the banking sector today is that 83 percent of the banks' capital belongs to the state." This promotes fair competition in the financial industry and has a detrimental impact on the quality of services delivered. Because of the infusion of private and foreign money into the banking system, we will gradually lower the percentage of state-owned banks. [1] The adoption on 12.05. of Decree of the President of the Republic of Uzbekistan No. UP-5992, which approved the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025 and its implementation, with the assistance of international organizations, was a significant step toward reducing the state share in the banking sector.

Sources of bank funds are divided into several categories. Deposits attracted at low rates in checks and savings accounts made up most of the bank's sources of funds. Banks also form sources of funds through the issuance of share capital, fixed deposits and securities. The study of the formation of bank resources is based on its internal and external analysis. The impact of financial and economic processes in society, indicators of bank profitability, indicators of the bank's financial condition, the efficiency of bank management, levels of bank managers, internal auditors, supervisors, specialists (human factor), government decisions, national regulations, internal risks, current, retrospective, prospective analyzes should be performed using relative and absolute indicators. Also, identifying internal and external factors that affect the strength of the bank's resource base is based on objectivity, regularity and discipline.

Attracting sustainable sources of funding by banks is based on a strategic approach. Given that sustainable funds are strategically crucial to the bank and are based on broad concepts, and they need to be studied separately.

MATERIALS AND METHODS

This article describes the market mechanisms of the formation of bank resources in terms of two different markets: the money market and the capital market. These markets are components of the financial market.

In the money markets, short-term and highly liquid financial instruments with a maturity of up to one year are usually traded.

Money market instruments for the formation of bank resources include:

- certificates of deposit and savings;
- promissory notes;
- bonds;
- interbank loans;
- repo operations.

The capital market is a segment of the financial market in which long-term securities are traded. Investors can participate in the capital market through the primary and secondary markets.

Capital market instruments for the formation of bank resources include:

- shares;
- long-term debt obligations.

Based on the above, we highlight the different aspects of the money and capital markets through the table below.

Table 1

Different aspects of money and capital markets

№	The main differences	Money market	Capital market
1.	Period	Short	Long
2.	Liquidity	High	Low
3.	Risk	Low	High
4.	Profitability	Low	High
5.	Participants	The central bank, commercial banks and non-financial organizations	Stock exchanges, commercial banks and non-bank credit institutions
6.	Economical effect	Provides liquidity in the economy	Ensures economic stability

It can be seen from the data in the table that commercial banks are active participants in the money and capital markets. In general, there is a need to develop capital markets in countries where the banking system generates the main benefit from the difference between interest rates by lending and attracting deposits. The banking system of such countries needs investment. This, in turn, requires the development of capital markets in these countries. Also, the country's development of money and capital markets simultaneously serves to meet short-term and long-term demand in the economy.

However, it should be noted that the country's capitalization in the country should not exceed GDP. Because this situation creates "Bubbles" in the economy. In this case, the market value exceeds the actual value.

An example of this idea is the Warren Buffett indicator. The Buffett Indicator is the ratio of the market value of all U.S. stock shares to the number of goods and services produced (GDP). If this indicator is around 70-80%, it is possible to invest in the stock markets. If this indicator exceeds 100%, it is necessary to eliminate risky assets and leave the market as soon as possible [1,7].

The Dodd-Frank Act of July 21, 2010, in the United States also prohibited banks from trading in financial markets at their own expense.[2,9]

In addition to the above, we considered it appropriate to focus on the formation of bank resources in the money and capital markets. We explain this based on the data in the table below.

Table 2

Elements of the mechanism of formation of bank resources

№		Methods	Market instruments

	Approaches of formation		
1.	Credit financing	- Interbank loans; -Central bank loans.	Money market instruments
2.	Депозитли молиялаштириш	- Attraction of deposits and savings; -Attracting funds to current accounts.	
3.	Debt financing	Issuance of securities	
4.	Equity financing	Issuance of shares	Capital market instruments

From the data in the table above, it can be concluded that bank liabilities, i.e. the funds raised by banks, are usually formed mainly through the money market. Also, bank capital, i.e. own funds, are formed through capital market instruments. This, in turn, reflects the specifics and distinctive features of bank liabilities and capital. Sources, methods, and financing instruments affect bank resources formation and the bank's financial activity (active operations).

RESULTS

Effective use of money market instruments in the formation of resources by banks in Uzbekistan today requires the development of the capital market in the country. Because we think that investors should have an exact reason and choice in which market to invest. [3,8,9]

Using the data in the table below, we consider the liabilities of commercial banks of Uzbekistan.

Table 3

Composition of liabilities of commercial banks of Uzbekistan, as a percentage

№	Indicators	Years				
		2016 y.	2017 y.	2018 y.	2019 y.	2020 y.
1.	Deposits	49,5	40,8	37,3	41,1	37,3
2.	Correspondent account of the Central Bank	0,4	0,4	0,27	0,8	0,4
3.	Funds of other banks	5,32	4,0	3,7	4,9	5,2
4.	Loans and leasing transactions	35,7	49,9	55,6	47,5	49,3
5.	Issued securities	0,3	0,1	0,01	1,30	3,1
6.	Other liabilities	8,9	4,8	3,2	4,6	4,7

The share of deposits, loans and leasing operations in the liabilities of commercial banks of Uzbekistan in 2016-2020 averaged about 89%. This indicates that the primary sources of credit and deposit financing and the sources of debt financing have a minimal share in the formation of resources by banks. This situation also indicates that the practice of attracting resources by banks to issue interbank loans and securities in the money markets is underdeveloped. If the share of interbank liabilities in total liabilities does not exceed 15%, it is considered acceptable. In Uzbek banks, this figure will average 4.6% in 2016-2020. It also requires that the limit on interbank liabilities in the United States should not exceed 25 percent of the bank's total capital. [10,11]

There are specific standards in the formation of interest rates on deposits of individuals by commercial banks in the Russian Federation. In particular, under the Decree of the Central Bank of the Russian Federation dated March 23, 2015, "On determining the basic level of return on deposits" № 3607-U, the basic level of return on deposits monthly set by the Bank of Russia (Central Bank of the Russian Federation). For the next month, the Bank of Russia on February 27, 2014 "On disclosure of information on interest rates on deposits of individuals by credit institutions (About the order of information on credit organizations and information on interest rates on bank deposits with physical assets)" №3194-U is determined based on information on the maximum interest rates on deposits received from banks under the Decree No. [11,12]

Also, the basic level of return on deposits in the current month is determined based on the arithmetic mean of the maximum interest rates on deposits of 2/3 of the banks that attracted the most deposits in the previous month. In addition, the indicator of the basic level of return on deposits would be sent to the official websites of all banks 3 working days before the start of each month. The basic level of return on deposits for banks is calculated for separate periods for rubles, U.S. dollars and euros (on-demand, up to 90 days, from 91 to 180 days, from 181 days to 1 year, more than one year). The disadvantage of this regulatory mechanism is that it led to a decrease in interest rates on deposits of individuals. However, its positive effect was that this situation might reduce the risk of bank licenses being revoked. If the interest rates on deposits in a separate bank were higher than the base rate announced by the Bank of Russia, this procedure was not considered a violation. Interest rates on deposits in banks should not exceed 2 percentage points of the base rate, and it is recommended to adhere to this limit. If the interest rates on deposits in banks exceed the base rate by 2 percentage points, the bank must pay insurance premiums to the State Agency for Deposit Insurance at an additional rate. If the interest rates on deposits exceed the base rate by 3 percentage points, the bank would have to pay insurance premiums at a higher rate [4,12].

In Uzbekistan, banks set interest rates on deposits based on the Central Bank's refinancing rate and changes in inflation in recent years.

The Central Bank separately examined banks' interest rate policy and financial condition to determine the validity of interest rate policy, including the interest rate, in banks where the average weighted interest rate on deposits exceeded the refinancing rate [5,13].

Table 4
The capital structure of commercial banks of Uzbekistan, as a percentage [3]

№	Indicators	Years				
		2016 y.	**2017 y.**	**2018 y.**	**2019 y.**	**2020 y.**
1.	Charter capital	64,6%	78,9%	73,7%	82,1%	76,5%
2.	Extra capital	0,5%	0,3%	0,3%	0,3%	0,7%
3.	Reserve capital	16,3%	8,7%	11,0%	7,5%	8,9%
4.	Retained earnings	18,6%	12,1%	14,9%	10,1%	13,8%

It showed that the share of additional capital in the capital of commercial banks of Uzbekistan was small. This, in turn, indicated a low market value of bank capital. The bank's capital is also a regulator of the bank's activities. The high amount of bank capital was crucial for strengthening the bank's customer base and covering the expected losses and risks.

Bank capital was the last line of defence against bankruptcy due to protecting the bank from all possible risks. The capital was also an essential factor in the development and expansion of the bank's lending activities in the future and contributed to the inflow (formation) of long-term funds. [14,15]

The Concept of "Bank capital adequacy" was widely used in foreign banks' practice and theoretical research. This indicator indicated the correlation between the number of assets placed and the number of resources involved. The capital was one of the sources of credit operations and a guarantee of loan repayment.

As a result of the integration of international economic relations, determining the capital adequacy acceptable for banks of all countries arose. The Basel Committee and the G10 countries (Canada, France, Germany, Italy, Japan, Sweden, Switzerland, USA, Benelux, U.K.) considered the capital adequacy ratio to be the most important indicator, and the integration of international economic relations required regulation of the level of sufficiency.

In 2018, the ratio of bank capital to GDP in Uzbekistan was 6.6%; in 2019, this figure was 10.0% and in 2020 - 10.1%.

The ratio of bank deposits to GDP in 2018 was 17.2%; in 2019, it was 17.8%, and in 2020 it was 19.8%. The ratio of bank resources to GDP was 52.7% in 2018, 53.5% in 2019 and 63.1% in 2020 [3,16].

Macroeconomic stability was primarily explained by the development of the banking sector and the credit market and structural changes. The activity of commercial banks required steady development of deposit operations by their types and terms. The use of various methods of attracting resources during the structural formation of the deposit base increased the potential of commercial banks to carry out operatively active operations. [21]

DISCUSSION

The country is changing, but not always consistently and methodically. Suppose at least some of the essential changes are executed somewhat effectively. In that case, there is hope for building more or less effective inclusive market institutions, establishing circumstances for long-term economic development, and constructing a "Middle class" and "Civil society". The middle class' and civil society will become a social cornerstone for future economic, legal, and political reforms. [17,18]

Today, the banking system of Uzbekistan needs investment. Banks' resources carry out their primary operations mainly based on attracting deposits from the population and economic entities and relocating them with interest margins.

In changing market conditions, banks are required to seek new funding sources to expand the range of services and effectively conduct banking business. [20]

In order to ensure the stability of demand deposits in commercial banks of Uzbekistan, it was necessary to introduce a new type of transaction deposit based on the definition of their terms, balances and the limits of transactions that can be used for a certain period.

We consider it necessary to introduce the practice of applying market rates on deposits attracted in the interbank resource market and, in this regard, to diversify interest rates on the amount, term and balance of deposits.

It was also necessary to revise the system of guaranteeing deposits in banks to increase the attractiveness of deposits in the practice of commercial banks in Uzbekistan. It was necessary to introduce a one-time guarantee of all types of citizens' deposits opened in one bank. [18,19]

We did not consider the approach to the types and characteristics of banks as a matter of concern in the formation of theoretical views on market mechanisms of the formation of bank resources. The reason was that in today's economy, the activities of commercial banks are based on a universal feature. Hans-Ulrich Derig, a Swiss scientist and banker, in his book "Universal Bank - The Bank of the Future" emphasized the importance of the universality of services provided by banks. [6]

CONCLUSION

In the course of publishing this article, the following conclusions were drawn:

1. The formation of resources by banks based on money and capital market instruments depended on the country's level of development. This level of development was most evident in the ratio of money and capital markets to GDP.

2. Bank liabilities, i.e. borrowed funds of banks, are formed mainly through the money market. Also, bank capital, i.e. own funds, are formed through capital market instruments.

3. Banks were active participants in the money and capital markets. In this regard, banks' used money and capital market instruments to form and place resources in more comprehensive than in other commercial institutions.

4. When analyzing the structure of liabilities of commercial banks of Uzbekistan, it showed that the sources of credit and deposit financing in the formation of resources by banks had a minimal share of the primary and debt financing sources.

5. The low share of additional capital in the capital of commercial banks of Uzbekistan, in turn, indicated the low market value of bank capital.

6. We believe that the identification of sustainable sources of funding by banks should be based on the following 4 main criteria:

- Interest (resources that minimize bank costs, reduce interest rate risk).
- Term (sources of funds attracted for a long and fixed period).
- Quantity (funds with a high return and capital capacity).
- Sales (sources of freely available funds).

CONFLICT OF INTERESTS AND CONTRIBUTION OF AUTHORS

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