

INFLUENCING THE CAPITAL OF COMMERCIAL BANKS TO THEIR PROFITABILITY

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In the banking sector, capital plays a much more specific role than in other sectors of the economy. It was revealed that the growth of credit debt does not play a significant role in the formation of profits of commercial banks in Uzbekistan, while their economic efficiency is low, despite the high proportion of risky assets in the assets of the banking system. It has been established that the factors affecting the bank's profit in commercial banks are related to inflation, risky assets of the banking system as a whole, and bank interest rates. An increase in interest rates on bank loans does not guarantee the bank's profitability, since a number of factors influence the formation of interest rates on loans, one of which is inflation. Sufficiency of volume and quality in terms of sources of capital of commercial banks play a key role in increasing their profitability.

Keywords: banking sector, capital of commercial banks, factors affecting the bank's profit.

Commercial banks' profitability is effected by the market power measured by the ratio outstanding loans to the country's credit, the size of the bank in terms of capital structure, the nature of business as it is exposed to risks and the set limit for capital adequacy (Koba, 2018). In fact, the volume of risky assets of commercial banks, in particular a large volume of loans, leads to an increase in their level of profitability, but also requires an increase in the amount of bank capital.

Kwakwala puts forward important ideas about the capital adequacy of commercial banks. According to him, like any commercial organization, banks need capital to operate and survive. However, the banking sector, capital plays a much more specific role compared to others industries because banks are high-level institutions. Regulatory bodies therefore, banks are required to maintain a minimum amount of capital to ensure this in any case (2015). The Central Bank of Uzbekistan seeks to further increase the volume of bank capital by raising the standards for risking the assets of commercial banks, the main goal of which is not to increase the lending rate of commercial banks.

The Central Bank of Uzbekistan is pursuing a tight monetary policy to ensure the stability of the consumer price index (CPI) in the national economy. Of course, the Central Bank focuses on fulfilling the inflation targeting forecast in exchange for a reduction in the money supply in the economy. As a result, interest rates on bank loans in the country tend to grow steadily, since the high demand for money in the real sector, the lack of sufficient financial resources of commercial banks to meet this demand directly leads to an increase in their lending rates.

Despite the liberalization of monetary policy in recent years, reforms to transform banks to market principles, the state's share in the capital of commercial banks in the country remains high (84.2%). At the same time, the assets of commercial banks account for 63.1% of GDP, credit flows - 47.7%, deposits - 19.1%, capital - 10.1%. The assets of the banking system of Uzbekistan make up 86.3% of risky assets, the ratio of net income to assets (ROA) is 2.2, and the capital ratio (ROE) is 10.

From the above data, it is clear that the inflow of loans does not play an important role in the formation of the profit of commercial banks in Uzbekistan, and their economic efficiency is low, despite the high proportion of risky assets in the composition of their assets.

However, it is natural for commercial banks to pay special attention to the steady growth of profits, since the level of profits plays an important role in increasing dividends and wages paid to shareholders, increasing the bank's capital and strengthening financial stability. Of course, there is an influence of local and foreign policy in favor of commercial banks, but the inflation rate, risky assets of the bank, bank capital and average annual interest rates on loans are factors that directly affect their profitability.

The advantages of commercial banks are the subject of research by many economists and experts as a topical issue. This is due to the fact that a number of factors directly or indirectly affect the benefits of banks. One of the main ones is inflation, which negatively affects not only the profitability of commercial banks, but also their stability. Thus, when determining the level of profitability of a bank in conditions of inflation, the separation of inflationary income from its income structure allows us to determine the real situation in terms of its profitability.

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The level of bank efficiency may affect future bank risk. In addition, a decrease in efficiency leads to an increase in the bank's risk. There should be a negative correlation between risk and efficacy when these exogenous events occur. Such events increase problem loans, increase risks, and in response, banks have to pay additional costs and have to resort to management actions.

In accordance with the banking legislation and market principles in force in the country, the Central Bank does not have the right to give direct instructions to commercial banks on setting loans and interest rates. The Central Bank has established the order of risk at the level of 150, 200 and 300 percent: risking the amount of the loan, the interest rates on the loan exceed the limits that it satisfies. In this case, an increase in the volume of risky assets of commercial banks imposes an obligation to increase their capital.

However, according to market principles, banks find it risky to lend to those who agree to take out a loan at a high interest rate, because even if the borrower agrees to take out a loan at a high interest rate, this increases the risk of repayment. In fact, this idea finds its practical confirmation in the real sector, since the process of repaying loans issued by banks is very laborious and leads to additional costs.

Among the factors influencing the profitability of commercial banks, the interest rate on a bank loan plays an important role. It is known that the interest rate on a loan should be adjusted based on supply and demand in the market. However, it is impractical to conclude that a high interest rate on a bank loan guarantees its profitability, since a number of factors affect its formation. For instance, in Uzbekistan, interest rates are directly affected by inflation and low money supply. Evidence is an indication that bank profitability depends on several factors in which inflation is one of them. Inflation as a virus that has come to stay in virtually all the economies of nations of the world both emerging and industrialized economies has reduced competitiveness in the world markets and can have a general debilitating effect on almost all type of economic activities, especially banking. There is no doubt that the bulk of interest on loans from commercial banks will not be real income in the form of inflationary income. In addition, banks will not be very interested in attracting time deposits as a result of interest payments from legal entities and

individuals. The share of term deposits in the deposits of commercial banks in Uzbekistan is low, and banks form risky assets at the expense of demand deposits, that is, demand deposits. This, in turn, leads to inconsistencies in their liquidity indicators.

It was found that the factors affecting the y – bank's profit (billion soums) in commercial banks are associated with inflation (in percent), risky assets of the banking system as a whole interest rates of the bank (in percent).

The high level of inflation in the economy negatively affects the profitability of the bank, which leads to an increase in inflationary income. In the course of the analysis, high inflation negatively affects the time deposits of depositors in banks, which indirectly and negatively affects their profits, naturally, due to a decrease in the amount of risky assets of banks.

An increase in the volume of risky assets of commercial banks has a direct positive impact on the bank's profit.

In conclusions it is acceptable that the sufficiency of amount and quality in terms of sources the capital of commercial banks play key factors to enhance their profitability.

ВЛИЯНИЕ КАПИТАЛА КОММЕРЧЕСКИХ БАНКОВ НА ИХ ПРИБЫЛЬНОСТЬ

В банковском секторе капитал играет гораздо более специфическую роль по сравнению с другими отраслями экономики. Выявлено, что рост кредитной задолженности не играет значительной роли в формировании прибыли коммерческих банков Узбекистана, при этом их экономическая эффективность низка, несмотря на высокий удельный вес рискованных активов в составе активов банковской системы. Установлено, что факторы, влияющие на прибыль банка в коммерческих банках, связаны с инфляцией, рискованными активами банковской системы в целом, процентными ставками банка. Повышение процентных ставок по банковским кредитам не гарантирует прибыльности банку, так как на формирование ставок по кредитам влияет ряд факторов, одним из которых является инфляция. Достаточность объема и качества с точки зрения источников капитала коммерческих банков играют ключевую роль в повышении их прибыльности.

Ключевые слова: банковский сектор, капитал коммерческих банков, факторы, влияющие на прибыль банка.