



INCREASING THE STABILITY OF BANKS' CAPITAL

Vasiev Alisher Samievich

Senior lecturer of Banking Department, Tashkent Institute of Finance

ABSTRACT

The article examines the problems associated with increasing the stability of the capital of commercial banks, and develops scientific proposals for increasing bank capital.

KEYWORDS: *commercial bank, Central Bank, capital, capital adequacy, issue income, retained earnings, stock.*

INTRODUCTION

The ongoing global COVID-19 pandemic is having a serious impact on the global economy, negatively affecting international financial and economic relations, living standards, as well as the stability of the banking system. As a result of events in the international arena, the financial weakness of commercial banks in the context of financial crises and economic crises leads to a decrease in public confidence in them. The financial strength of commercial banks and the strength of public confidence require increasing the stability of their capital.

In the digital economy, the range of services provided by commercial banks has increased, remittances have accelerated, resources have expanded, and their participation in economic processes has become more active. However, the ongoing economic crisis in the international arena, the growing competition for financial resources are causing problems related to increasing the stability of the capital of commercial banks in our country.

MAIN ISSUE

A number of measures are being taken to ensure the commercial banks' capital and their stability, and the corresponding results are being achieved. However, a number of pressing issues remain unresolved. In particular, in his speech, President of the Republic of Uzbekistan Sh. Mirziyoyev said: "... this year we must take drastic measures to develop the banking system. Unfortunately, the banking system lags behind modern requirements for the use of digital

technologies, the introduction of new banking products and software for 10-15 years."¹

The President and the Government of the Republic of Uzbekistan are adopting a number of decrees and resolutions to increase the capitalization of commercial banks. We can note that this has a special place on the basis of consistent economic reforms in our country. In addition, the regulations of the Central Bank, the requirements for commercial banks are constantly being improved. It should be especially noted the tasks set in the Decrees of the President of the Republic of Uzbekistan No. UP-5953 of March 2, 2020 "On the State Program for the Implementation of the Strategy of Action in Five Priority Areas of Development of the Republic of Uzbekistan for 2017-2021 in the Year of Science, Education and Digital Economy", No. UP-5177 of September 2, 2017 "On priority measures to liberalize foreign exchange policy", Resolutions No. PP-3270 of September 12, 2017 "On measures to further develop and improve the stability of the banking system of the republic", No. PP-3620 of March 23 2018 "On additional measures to increase the popularity of banking services", Decree No. UP-5992 dated May 12, 2020 "On the Strategy of Banking Reform of the Republic of Uzbekistan for 2020-2025" for the medium term for further improvement and development of the banking system of the country and in other normative legal acts in this area.

As a result of the work done to increase the capitalization of commercial banks, by 2020 the total

¹ Address of the President of the Republic of Uzbekistan Mirziyoyev Sh.M. Oliy Majlis on the most important priorities for 2020



capital of the banking system increased by 14.3%, including the authorized capital by 6.6%, as of January 1, 2021, respectively, 58.3 trillion soums and 44.6 trillion soums. In order to ensure the financial stability of state-owned banks and meet the growing demand for credit in the economy, in accordance with the relevant decrees of the President of the Republic of Uzbekistan, \$ 1.9 billion was directed to the capital of state-owned banks. The capital adequacy ratio of commercial banks increased by 7.9 percentage points compared to 2018 and as of January 1, 2020 amounted to 23.5% (minimum requirement 13%). At the same time, the capital adequacy ratio in the banking system decreased from 23.5% at the beginning of the year to 18.4% as of January 1, 2021, but was formed at a higher level than the established 13% prudential norm.

In order to ensure that the capital adequacy ratio is maintained at an acceptable level in the face of the threat of an increase in overdue loans in the impact of the coronavirus crisis, the Central Bank has issued relevant instructions to banks to capitalize their net profit for 2020. The development of the infrastructure of banking and non-bank credit institutions and digital financial services will play an important role in increasing the popularity of financial services. As part of measures to improve the competitive environment in the banking system in

2020, expand the participation of foreign investors, the opening of a branch of one of the largest banks of Georgia TBC Bank in Tashkent, the launch of digital banking services of Anor Bank in the digital economy played an important role in the introduction of new types of services provided banks, and the formation of an interbank competitive environment.

These include a further increase in the level of capitalization of commercial banks, the attraction of private capital in this area, an expansion of the deposit base of commercial banks, an increase in the quality of assets of commercial banks, the quality of risk management, especially credit risk management, an increase in the volume of loans directed to the economy, and a further expansion of participation banks in investment processes.

If we pay attention to the capital structure of commercial banks in Uzbekistan, we can see that in recent years it has been growing in absolute terms. Of course, this is due to a number of factors. In particular, in September 2017, the devaluation of the national currency against foreign currencies, changes in the requirements for the minimum amount of capital of banks, as well as the decisions of shareholders to increase the amount of capital were among them. In the table below, we consider the capital structure and dynamics of commercial banks.

Table 1
The structure and dynamics of the capital of commercial banks of the Republic of Uzbekistan²
(As of January 1 as a percentage of the total)

Sources of capital	2016	2017	2018	2019	2020	2021
Authorized capital	68,9	64,6	69,8	63,7	64,1	66,5
Additional capital	0,5	0,5	0,3	0,3	0,3	0,7
Reserve capital	15,3	16,3	8,7	11	10,4	8,9
Net profit for the current year	10,1	13,7	12,1	14,9	10,1	10,0
Retained earnings	5,2	4,9	9,1	10,1	15,1	13,8
Total capital	100	100	100	100	100	100

² www.cbu.uz.



We can see that the authorized capital of commercial banks in the total capital structure decreased by 2.4% as of January 1, 2021 compared to January 1, 2016, but the authorized capital has increased in absolute terms during the analyzed period. In our opinion, the share of authorized capital in the total capital of commercial banks should not be allowed to decrease, because this source is, firstly, a stable source, and secondly, it is cheaper financial resources than borrowed funds. It is also expedient to increase the share of additional capital in the capital of commercial banks of the country. From the data in the table we can see that the share of added capital of commercial banks in the bank capital is also very small. That is 0.5 percent in 2017, while as of January 1, 2018 and 2020, this figure decreased by 0.2 percentage points to 0.3 percent. As of January 1, 2021, a significant increase can be seen, i.e. 0.7 percent. The very low share of this source indicates that the share of shares of commercial banks in the financial market is very low and the transaction process is not transparent.

In order to increase the resource base of commercial banks, it is expedient to expand the range of banking services, introduce new types of deposits and savings, issue long-term debt obligations, bonds and subordinate securities. It is necessary to regulate the sale of shares and certificates of deposit, bonds, subordinated debt obligations issued by commercial banks for cash by informing the public. As a result, firstly, the volume of non-bank turnover will be reduced and the purchasing power of the national currency will be strengthened, secondly, the capital stability of commercial banks will increase and a number of problems in meeting customer demand for cash will be solved.

One of the main tasks is to further deepen the reform of the banking and financial system, increase the stability of banks, radically change the approach and methods of assessing the performance of banks and the banking system, ensuring compliance with international requirements and standards.

As a result of the above, the capital of commercial banks of the country is growing in absolute terms.

Although the commercial banks of the country meet the requirements of the Central Bank and international institutions, we can note that there are some problems with the formation, management and sustainability of the capital of commercial banks of the country.

First, there is no source of issue income in the fixed capital of commercial banks. Issue income is indeed a highly stable source of capital in the bank's capital compared to other sources. This is because the issue income in the capital of commercial banks is formed as a result of an increase in the nominal value of their shares and is formed as the

difference between the nominal and market value of the shares. However, the formation of issue income as a stable source in the capital of commercial banks of the country remains one of the main problems.

Second, the stock market is underdeveloped, the population does not have relevant information on the purchase of bank shares. Unfortunately, the lack of transparency of the stock market in the country, insufficient study in this direction, especially the purchase and sale of bank shares, lack of information on dividends paid on them have a significant negative impact on public confidence in the banking system.

CONCLUSION

Third, the refusal to issue high-yield securities by commercial banks, especially for individuals, in the financial market negatively affects the expansion of the deposit base of commercial banks, an increase in their total capital and ensuring economic independence.

In order to remove barriers to the effective operation of banks, the measures outlined in the Banking Reform Strategy for 2020-2025, in accordance with the requirements of the Basel Committee on Banking Supervision, identified such tasks as maintaining the adequacy and liquidity of commercial banks, improving the management system and banking risk, including improving the efficiency of risk management in commercial banks based on the best foreign practice. The digital economy provides opportunities for modern technologies and the formation of new corporate governance relationships in banks, increasing the capitalization of commercial banks, improving the quality of the loan portfolio and further improving the scope of lending, ensuring the popularity of new remote digital banking services in pandemics.

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