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Mechanisms for Improving the Capital Position of Commercial Banks

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Annotation. The transition to a two-tier banking system, the establishment of economically independent commercial banks, the transition to the principle of self-financing of banks, the problem of achieving compatibility of liabilities and assets have become urgent issues in banking activity. The development of market relations led to the diversification of bank resources. Given the current economic conditions, it is advisable for banks to further develop the issue of attracting deposits in the formation of bank resources, because they will facilitate the payment system and facilitate the use of monetary policy tools by improving the accounting practices of the Central Bank. In these respects, the topic is relevant.

Keywords: private capital, bank, strategy, level of bank, banking system resource, capitalization, finance.

1. Introduction.

Developing the economy on the basis of reforming and liberalizing the banking system, which is one of the important links of market relations, organizing the activities of local banks that meet the requirements of the international banking system, and further improving their activities are considered urgent tasks of the day. As the President of the Republic of Uzbekistan Sh. Mirziyoyev noted, "A thorough and stable banking and financial system is of great importance in the development of the economy. We cannot completely get rid of the "hidden economy" without strengthening the trust of the population and business entities in the banking system [1].

In the Address of the President of the Republic of Uzbekistan to the Oliy Majlis on January 24, 2020, it was stated that the development of financial markets, including the stock market, should be one of our main goals in the new economic conditions, as well as the position and reputation of the international financial markets in the future. by introducing new financial instruments and issuing bonds in our country in cooperation with leading international investment banks of developed countries, in particular, "J.P. Morgan", "Citibank", "Deutsche Bank", further expanding the scope of banking services, or on the need to develop the banking system based on information technologies [2]. In addition, bold steps are being taken to gradually reduce the state share in the capital of banks, to create a healthy competitive environment in the system sector through the privatization of banks, to improve the quality of service, and to improve the quality and culture of lending in all respects [3].

The efficiency and continuity of commercial banks' activity depends first of all on how adequately they are provided with resources. The financial resources of commercial banks are attracted on the basis of certain conditions and are formed from the bank's own funds and are directed to active operations in order to generate the bank's income. Raised funds cover the need for cash resources to carry out active operations, primarily credit operations. Their role is very large and



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makes up more than 70% of the bank's resources. By using the temporary free funds of legal entities and individuals, commercial banks meet the needs of the national economy and the population for additional working capital, and help turn money into capital. Banks have limited opportunities to attract funds, and in all countries this process is regulated by the Central Bank. The borrowed funds make up the main part of the credit resources of commercial banks [4].

2. Literature review.

One of the factors that ensure the financial stability of banks is that they are provided with a high level of stable resources. A strong and stable resource base of private banks is one of the factors determining their high profitability or the quality and scope of asset operations. It is known that as a result of the development of the economy and the development of industries, the demand of customers for the bank's financial services increases. Banks use their own funds and borrowed funds to meet these requirements. Due to the limited possibility of constantly expanding the amount of their funds, they use their borrowed funds, which are the main source of financial resources for banks. Nowadays, when the level of competitiveness of banks has crossed national borders and reached the global level, ensuring the strength of the resource base of private banks is one of the important issues [5].

According to O.I.Lavrushin, U.O.Azizov, T.M.Karalievlar, "the resources of credit organizations are the sum of their own and borrowed resources at the bank's disposal, which are used in the implementation of asset operations. Bank resources are reflected in the passive part of the balance sheet of credit organizations" [6]. In our opinion, it is appropriate to provide a broader explanation of the composition of funds equaled to own funds by our above scholars in their views on the bank's resource base.

According to one of our local scientists, Professor Sh. Z. Abdullaeva, "the resource base of commercial banks determines the level of their credit potential. The resource base organized by the bank can be directed to grant various loans and finance investments and other asset operations" [7].

Professor A.A. Omonov in his scientific research stated that "resources of commercial banks are the financial value formed at the expense of the attraction of free money in the economy and the formation of private funds (capital) under certain conditions [8]". emphasizes.

U.D. Artykov "bank resources are a set of reserves and opportunities that can be used for the implementation of banking activities within the framework of the bank's policy, consisting of the bank's own funds and borrowed funds, which are the basis for the bank's income [9]". Of course, while supporting the definition given by the authors, we think that special attention should be paid to the bank's resource base.

So, on the basis of the analysis of the various approaches of local and foreign scientists to the concept of "bank resource base", it can be noted that there is no single definition of the resource base in economic literature, but the interpretations of scientists are similar [10].

Taking into account the above, we have developed the following author's approach regarding the resource base of private banks. The resource base of private banks is the sources of own funds, in addition, in order to maintain a high level of competitiveness and a positive image, to increase the potential of using financial resources in the future and to expand the volume of active operations, in order to obtain income and ensure the liquidity of the balance sheet, the resources of legal entities



and individuals It is the sum of funds attracted by the bank with the condition of return to the account of funds [11].

3. Analysis and discussion of results.

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 [12]. As we know, the capital of commercial banks is formed at the expense of bank shareholders' funds and other sources. The following table provides general information about the formed capital of commercial banks of our country.

According to Table 1, the total capital of commercial banks is 70.9 trillion. we can see that it was 57.7 trillion soums. Soums or 81 percent of the capital is accounted for by banks with a state share. It is noteworthy that if the state-owned banks number 12 as of January 1, 2022, the main share of the capital, i.e. 44.9 percent, belongs to Uzmilliybank, Uzsanoatqurilishbank and Agrobank. came. In addition, it can be seen from the data that a number of banks (Apelsin bank, Uzagroexportbank, Hai-Tek bank, Madad investment bank, Ravnaq bank, Turkistonbank, Universal bank) will increase their authorized capital to 500.0 billion by January 1, 2025. they must take appropriate measures regarding their issue of soums, otherwise the Central Bank will take appropriate decisions due to their failure to meet the minimum level of capital [13].

Table 1
The practical situation of the capital of commercial banks of Uzbekistan
billion in soums

№	Name of the bank	2019		2020		2021		Change (+/-)	
		amount	share %	amount	share %	amount	share %	amount	Growth rate
Total:		51031	100	58351	100	70918	100	19887	39
State-owned banks		44267	87	48996	86	57695	81	13429	30
1.	National bank	13141	25,8	13873	23,8	14769	20,8	1628	12
2.	Uzconstruction-bank	6247	12,2	6704	11,5	7701	10,9	1454	23
3.	Asaka bank	6128	12,0	6426	11,0	6505	9,2	377	6
4.	Mortgage bank	3730	7,3	4274	7,3	5087	7,2	1357	36
5.	Agrobank	4627	9,1	5371	9,2	9346	13,2	4719	102
6.	Khalk banki	4361	8,5	4869	8,3	5480	7,7	1119	26
7.	Rural construction bank	1446	2,8	2414	4,1	2696	3,8	1251	86
8.	Mikrocreditbank	1625	3,2	1738	3,0	2321	3,3	696	43
9.	Aloka bank	1396	2,7	1569	2,7	1674	2,4	278	20
10.	Turon bank	1091	2,1	1210	2,1	1915	2,7	824	76
11.	Poytaxt bank	107	0,2	124	0,2	135	0,2	28	26
12.	O'zagroeksportbank	83	0,2	86	0,1	67	0,1	-16	-20



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	Other banks	6764	13	9355	14	13222	19	6458	95
13.	Capital bank	653	3,5	867	2,5	1489	2,1	836	128
14.	Hamkor bank	1138	2,8	1478	2,9	1928	2,7	790	69
15.	Silk road bank	728	2,1	1191	2,0	1532	2,2	804	110
16.	O'zKDB bank	592	1,7	661	0,5	758	1,1	166	28
17.	Trast bank	518	1,6	821	0,8	1 182	1,7	664	128
18.	Orient Finans bank	878	1,3	1 125	1,1	1 343	1,9	465	53
19.	Invest Finans bank	519	1,3	628	1,2	765	1,1	246	47
20.	Tenge bank	116	0,8	361	0,5	1230	1,7	1114	960
21.	Aziya Alyans bank	285	0,7	338	0,6	397	0,6	112	39
22.	Davr bank	202	0,6	303	0,7	409	0,6	207	102
23.	Ziraat bank	280	0,4	319	0,3	350	0,5	70	25
24.	Universal bank	125	0,3	180	0,2	195	0,3	70	56
25.	Merchant bank	164	0,3	179	0,3	192	0,3	28	17
26.	Turkiston bank	147	0,3	158	0,2	160	0,2	13	9
27.	Anor bank	0	0,3	100	0,2	187	0,3	187	x
28.	Tibisi bank	0	0,2	199	0,1	304	0,4	304	x
29.	Ravnaq bank	130	0,2	137	0,2	143	0,2	13	10
30.	Eron Soderot bank	326	0,1	365	0,0	385	0,5	59	18
31.	Xay-Tek bank	120	0,1	139	0,0	105	0,1	-15	-13
32.	Madad invest bank	128	0,1	144	0,1	148	0,2	20	16
33.	Apelsin bank	0	0,0	0	0,0	20	0,0	20	x

As we know, one of the main ways to increase the level of capitalization of commercial banks is to increase the authorized capital of the bank (Kurbanov R., 2019). In recent years, special attention is being paid to increase the authorized capital of commercial banks in our republic. As a result, banks have a significant share of their authorized capital in their funds. We can see this in the table below [14].

From the data in the above table, it can be seen that the ratio of the authorized capital of commercial banks to their own funds shows an increasing trend in the last year. But in 2018, on the contrary, it decreased significantly, but in 2019, this indicator increased to 82.06 percent. This was mainly caused by the execution of decision No. PQ-3270 of September 12, 2017. According to it, the charter capital of all commercial banks will be 100 billion by January 1, 2019. it was decided to increase it to soums. The authorized capital and own funds of commercial banks have increased over the years. It is a positive situation that the authorized capital occupies a high weight in the total capital volume. Because the authorized capital is a source of financing with a high degree of stability [15].

In order to solve the issues of increasing the level of bank capitalization in our republic, on May 12, 2020, the Decree of the President of the Republic of Uzbekistan No. 5992 "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025" was adopted. In this decree, the tasks of gradual privatization of state shares in 6 banks (TIF Milliy Bank, AT Sanoatqurilish Bank, AT Asaka Bank, AT Ipoteka Bank, AT Agrobank, AT Xalq Bank) and serious reduction of the share are determined [16].

Based on the above, it can be said that it is necessary to evaluate the indicators describing the level of capitalization of commercial banks of our republic. It is necessary to pay attention to 2 main indicators:

- Regulatory capital size of the bank;
- Regulatory capital adequacy level of the bank.

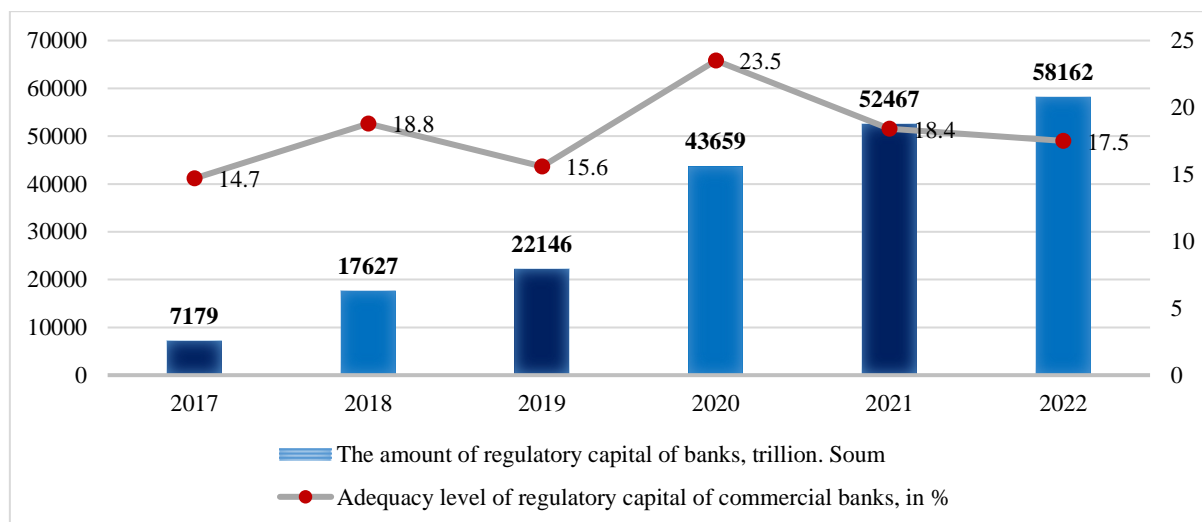


Figure 1. State of indicators describing the level of capitalization of commercial banks of the Republic of Uzbekistan [17]

It can be seen from the data presented in Figure 1 that in 2016-2021, the amount of regulatory capital of commercial banks of our republic had a tendency to increase or decrease. The fact that it shows a downward trend in recent years is a worrying situation for commercial banks. The reason is that the volume of assets at risk in commercial banks of our republic shows a rapid growth rate compared to the bank's regulatory capital [18]. To prevent this, commercial banks should attract more subordinated debt obligations, which are part of additional capital [19].

Currently, the issuance of long-term subordinated debt obligations of commercial banks is one of the modern instruments for increasing their capitalization level and achieving stability. In this case, it is necessary to make fuller use of the possibilities of increasing the additional capital base of commercial banks. The additional capital base of commercial banks of our country is relatively weak, and there are a number of opportunities to increase its stability. In particular, subordinated securities can be put into circulation [20].



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At the same time, the year-by-year increase in the country's GDP leads to an increase in the volume of credit deposits of commercial banks, which, in turn, requires an increase in their capitalization level. As a result, stability of bank capital can be achieved [21].

4. Conclusions and suggestions.

Based on the above analyzes and studies, we were able to develop the following recommendations in order to increase the level of capitalization of banks:

It is advisable to gradually increase the level of capitalization of commercial banks. It is necessary to increase the investment attractiveness of shares of commercial banks through the use of financial incentives by the state, and on the basis of this, it is necessary to bring the minimum amount of the authorized capital of banks to the level of the specified requirements by January 1, 2025 [22].

Commercial banks of the Republic of Uzbekistan should issue subordinated debt obligations that will be in circulation for a long time and can be changed through sessions through the development of the securities market [23].

Funds invested by the state in the authorized capital of commercial banks should be directed to the development of priority sectors of the economy, and the dividends paid for these funds should be fully spent on increasing the level of capitalization of banks [24].

The results of the analyzes and studies show that commercial banks should use modern ways to increase their capitalization level, to put it even more simply, experiences that have given positive results abroad. In particular, it is desirable to increase the level of capitalization of banks and achieve stability by increasing the amount of added capital in their own funds.

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