INCREASING THE LEVEL OF CAPITALIZATION AS A BASIS FOR STRENGTHENING FINANCIAL STABILITY IN COMMERCIAL BANKS

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Annotation

The article investigates the issues of the economic essence and features of increasing the capitalization of commercial banks. Also, some issues of increasing the capitalization of commercial banks in the context of the introduction of innovations are considered, scientific conclusions, proposals and recommendations of the authors on increasing the capitalization of commercial banks in the context of the introduction and development of innovations in the economy are formulated.

Keywords: capital of banks, authorized capital of a bank, capitalization of commercial banks, innovation, digital technologies, commercial banks, banking innovations, bank assets, bank liabilities, banking operations.

1. Introduction

In the context of the introduction and development of innovations and information technologies in the banking system, an increase in the capitalization of commercial banks is of great practical importance for strengthening the liquidity and financial stability of banks. It is capitalization that helps to increase the resource potential of a company through additional attraction of direct and portfolio investments. For this reason, the volume of the financial market is very closely related to the level of capitalization. In addition, the higher the capitalization, the higher the collateral value of the company, the more loans it will be able to attract to develop its business. Within the framework of a separate institution, the level of capitalization characterizes the ability of its managers to prove the prospects of the activity of this institution.

It should be noted that developed countries have accumulated many years of advanced theoretical, methodological and practical experience in the field of increasing capitalization, modeling, forecasting, analysis, assessment and regulation of the financial stability of commercial banks. The study of advanced foreign experience in this area is of great practical importance for further increasing capitalization, strengthening liquidity and financial stability of commercial banks in Uzbekistan in the context of introducing innovations into the economy. The global development of market relations in the modern economy requires commercial banks to develop and improve methods for strengthening capitalization and financial stability, based on the principles of the market and economic rationality. In particular, in the Action Strategy for the five priority areas of development of the Republic of Uzbekistan in 2017-2021, in the section of development and liberalization of the economy, special attention is given to deepening the reform and ensuring the stability of the banking system, the level of

capitalization and the deposit base of banks; strengthening their financial stability and reliability; further expansion of lending to promising investment projects [1].

The results of a study of the financial and banking system of developed and developing countries show that the capitalization of commercial banks directly affects the development and stability of the country's economy. Also, bank loans support the development of small and medium-sized businesses, private entrepreneurship and stimulate the development of infrastructure for an innovative and digital economy in the country.

In recent years, international banking practice has seen fundamental changes in the activities of commercial banks. The further development of digital technologies in the economy and, in particular, the banking system is due to global progress in the fields of information technology and telecommunications.

2. Research Methodology

The level of capitalization of commercial banks operating in the country was analyzed, and the author made suggestions and recommendations to increase the level of capitalization.

3. Literature Review

Capitalization is largely determined by economic growth and the global competitiveness of the national economy, while capital is a relatively constant value. That is why the Basel II and Basel III standards attempted to bring the technique of implementing the concept of regulatory capital to a qualitatively new level: the level of market-oriented assessments, since the Basel I standard proceeded from the concept of regulatory capital and determined the requirements for capital without taking into account the real need for banks.

The concepts of the structure of assets and the structure of liabilities of a commercial bank are one of the fundamental in the theory of banking, since all the activities of the bank come down to the competent formation of the passive part of the balance sheet with subsequent investment of accumulated funds in active instruments. However, the attitude to the structure of assets and liabilities of a commercial bank as an independent object of management arose relatively recently.

So, in the textbook "Banking", published in 2009 under the editorship of a well-known foreign scientist economist Lavrushin O.I., the definition of the structure of assets is given as: "... the ratio of different quality items of the bank's balance sheet asset to the balance sheet total" [2], while there is no definition of the structure of liabilities.

Later, the concept of asset and liability management of the bank emerged. Different authors have paid different attention to this issue. So, in the fourth edition of "Banking" under the editorship of the foreign scientist economist Kolesnikov V.I. there is the concept of asset and liability management, but only as part of the liquidity management process: "The bank's liquidity management process includes a set of actions and methods for managing assets and liabilities" [3].

The approach of the famous foreign scientist P.S. Rose is the most constructive and is based on the assumption that the essence of asset and liability management in banks is the formation of a strategy and the implementation of activities that bring the bank's balance sheet structure in line with its strategic programs. In his opinion, "... the main goal of asset and liability management is to maximize or at least stabilize the bank's margin (the difference between interest income and interest costs) with an acceptable level of risk" [4].

4. Analysis and Discussion of Results

The meaning of the capitalization process is to increase the cost of capital owned by subjects of all levels of the country's economy, as a result of the growth of their economic potential and

efficiency. Thus, capitalization largely determines the rate of economic growth and the global competitiveness of the national economy.

Indeed, for private and state-owned companies and banks, own funds are practically the only sources of increasing capitalization. For companies and banks whose shares are listed on the stock exchange, the market value of capital is decisive in assessing the level of capitalization. In particular, as of January 1, 2020, the market capitalization of all public companies in the world was 96 trillion. US dollars, of which 5.6 trillion. US dollars - capitalization of commercial banks. The capitalization of public companies exceeds the volume of world GDP, which in 2019 amounted to 85.91 trillion. US dollars [5].

Until now, both in the scientific community and the banking community, capitalization is understood only as an increase in the bank's own capital. For example, Peter S. Rose notes that "we often operate with the term "capitalization", meaning by this the own funds or equity capital of banks and its sufficiency to cover risks" [6].

Of course, it is difficult to overestimate one of the most important conditions for the stable operation of the bank - the amount of equity, which is formed from the contributions of the founders, profits and funds formed from it. The bank's equity capital is a set of fully paid-up elements of various purposes that ensure the economic independence, stability and sustainability of the bank.

Innovation, information technology and the digital economy have become one of the main factors for the accelerated development of the economies of many countries. To date, the leaders of the digital economy are Germany, Japan, the United States, South Korea and the United Kingdom. The reverse side of this process is the growth of Internet fraud, which is one of the main modern banking risks [7].

The main activities of the bank are lending to the real sector of the economy of Uzbekistan, financing projects for technical and technological modernization in order to promote the production of competitive products and create new jobs. A special place in the work of the bank is occupied by financial support for small businesses and private entrepreneurship.

The analysis of the data in Table 1 shows that in 2021, all indicators of commercial banks increased significantly compared to previous years, but their share in GDP decreased in some indicators. In particular, the share of assets in relation to GDP decreased from 66.9 percent in 2017 to 6.3 percent and amounted to 60.6 percent. This indicates that the nominal volume of GDP has grown at a low rate compared to the assets of banks. During this period, the weight of credit deposits remained unchanged at 44.4%, the weight of deposits decreased, and the weight of total capital increased by only 0.2% in this period and made up 9.7% of GDP (Table 1).

Table 1 The share of the banking system in the economy of the Republic of Uzbekistan (in trillion soums) [8]

Indicator name	2015	2016	2017	2021
Gross Domestic Product (GDP)	171, 4	199,3	249,4	734,6
Bank assets, total	65,1	84,1	166,6	444,9
Ratio of assets to GDP, in percent	38,0	42,2	66,9	60,6
Loan deposits, total	42,7	52,6	110, 6	326,4
Ratio of credit investments to GDP, in percent	24,9	26,4	44,4	44,4
Total deposits involved	35,6	44,6	58,7	118,9
Ratio of deposits to GDP, in percent	20,7	22,3	23,5	16,2
Total capital	7,9	9,0	23,7	70,9
Ratio of total capital to GDP, in percent	4,5	4,5	9,5	9,7

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In particular, as of January 1, 2020, the market capitalization of all public companies in the world was $96 trillion, of which $5.6 trillion is the capitalization of commercial banks. The capitalization of public companies exceeds the volume of global GDP, which in 2019 amounted to 85.91 trillion US dollars [9].

Table 2 Information on assets, loan capital and problem loans of banks of the Republic of Uzbekistan (trillion soums) [10]

Nu.	Indicators	2016	2017	2018	2019	2020	2021	January 1, 2022
1.	Assets	84,1	166,6	214,4	272,7	276,9	366,1	444,9
2.	Risk assets	57,4	106,5	155,0	223,0	316,8	376,8	292,2
3.	Loans issued	52,6	110,6	167,4	211,6	276,9	276,9	326,3
4.	Capital	9,0	20,7	26,7	51,0	53,3	51,1	70,9
5.	Problem loans	0,39	1,3	2,1	3,1	2,3	2,1	5,2

The assets of the banking system in 2021 will reach 383.2 trillion soums and increased compared to previous years, an increase of 335.3% compared to 2016. Risky assets also saw credit growth increase accordingly. Although the bank's capital has also increased, it can be seen that its adequacy ratio has decreased. The amount of both non-performing loans, which represent the quality of assets, has increased. Deterioration in asset quality indicates that it is moving into a problem asset.

It is important to study the problem loans of banks, including the constant monitoring of their share in the loan portfolio, assets, the development and implementation of specific measures to reduce it. Problem loans in the Republic of Uzbekistan are growing from year to year, if in 2016 the problem loans amounted to 0.7%, by the end of 2021 it was 2.7%. This can also be seen in the ratio of problem loans to assets and risky assets. It can be seen that the quality of assets in commercial banks is relatively declining.

Table 3 Problem loans of banks of the Republic of Uzbekistan Share in assets, risky assets, loans (at the beginning of the year, in%) [11]

Nu	Indicators	2016	2017	2018	2019	2020	2021
1.	The sum of problem loans share in assets, in%	0,5	0,8	1,0	1,2	1,6	2,3
2.	The total risk of problem loans share in borrowed assets, in%	0,7	1,2	1,4	1,4	1,8	2,1
3.	A total of problem loans are issued share in loans, in%	0,7	1,2	1,3	1,5	2,1	2,7

In the case of overdue loan repayment, the borrower is unable to repay the amount and the bank incurs certain losses. If the reserves are kept to a minimum, in such cases, when problem loans appear, they cover a certain part of it and do not cause much damage to the bank. One of the last measures to reduce problem loans is to collect payments on guarantees and sureties received, to cover them through the sale of mortgaged property. There are a number of specific advantages to using Scoring Analysis based on a new approach using modern methods to prevent the emergence of problem loans in commercial banks. In this regard, it should be noted that the President of the Republic of Uzbekistan on May 12, 2020 N. PF-5992 "Reform of the banking system of the Republic of Uzbekistan for 2020-2025" The Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025 sets tasks for the introduction of modern information technologies, including automated scoring systems, which will simplify, accelerate the process of bank lending. It was noted that it will serve to increase transparency. It should be noted that today "macroeconomic and financial conditions for commercial banks can change as quickly as the financial crisis of 2008 and the recent debt crisis in Europe.

Therefore, ensuring the quality and profitability of assets in banks in response to the changing environment remains an important issue. The main problem of banks is the need to dynamically optimize the structure of assets and liabilities, ensure the profitability of operations and minimize risks" [12], and therefore banks always take appropriate measures to address these shortcomings.
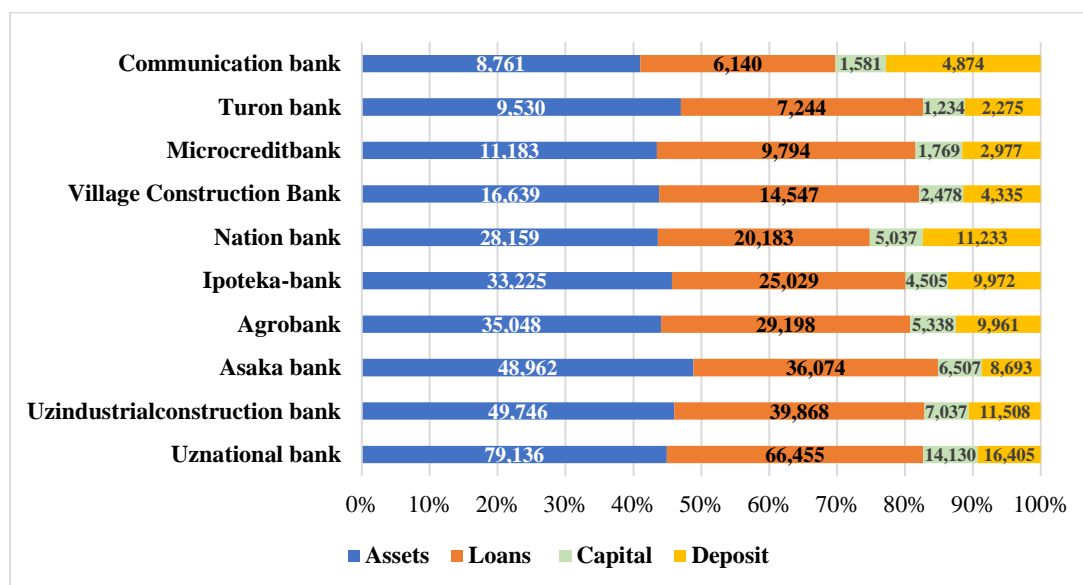

Figure 1. Key indicators of state commercial banks of the Republic of Uzbekistan as of 2021 Top-10 (in billion soums) [13]

The above analysis shows that among the state-owned banks operating in the country, UzNational Bank is ahead in terms of total assets with 79,136 billion soums. In terms of loans, the UzNational Bank ranks first with 66,455 billion soums. In turn, the capitalization of the National Bank is 14,130 billion soums, and the UzNational Bank leads in deposits with 16,405 billion soums.

The lack of issue income in the capital of commercial banks of the country indicates that the secondary market of securities issued by commercial banks is underdeveloped and is not considered as an object of regular trading. However, in the capital of commercial banks in many foreign countries, the amount of issue income occupies a significant share. For example, it is second only to the government in terms of the volume of securities issued by commercial banks in the United States, the United Kingdom and Japan, and their participation in trading in financial markets. Given that one of the most convenient and profitable areas in the process of further deepening the liberalization of the economy is to increase the amount of resources attracted by commercial banks through issuance of shares and certificates of deposit, then regular participation of commercial banks in securities market development its role in making it even more pronounced.

5. Conclusions and Suggestions

Based on the foregoing, we can draw the following conclusions on the development of methods of financial stability, strengthening resources, liquidity and reliability of commercial banks.

1. Financial stability is the most important characteristic of the financial activity of a commercial bank in a market economy. Its provision is one of the most acute problems in the activities of commercial banks. If a commercial bank is financially stable, then it has a

competitive advantage over other commercial banks.

2. The global development of modern economic relations requires commercial banks to improve market methods to strengthen financial stability. It is known that banks lend to the real sector of the economy, service enterprises, the service sector, small businesses and private entrepreneurship, as well as the population, using market mechanisms and banking business technologies that meet the requirements of modern international banking practice.

3. In the modernization of the economy, increasing long-term resources and strengthening the financial stability of a commercial bank is a very important process in order to reduce credit risks, which is quite relevant today in our country at a time when the Central Bank of the Republic of Uzbekistan is pursuing a credit restriction policy.

4. To strengthen the financial stability of commercial banks in Uzbekistan, it is necessary to attract experienced domestic and international specialists in the field of banking, economic forecasting and analytics, research personnel, as well as higher educational institutions, for the development, testing, and further implementation of modern advanced banking technologies.

5. A study of the banking system of developed and developing countries shows that financial stability is a characteristic of the stable position and further development of the bank as the main element of the banking system. The stability of an individual bank, liquidity, reliability and stability of the banking system are interdependent indicators, as they are determined by the state of the economic environment within which banking activities are carried out.

In conclusion, it can be said that, in the context of the development of the digital economy in Uzbekistan, national and foreign methods for increasing long-term financial resources and assessing the strengthening of the financial stability of commercial banks do not allow an objective assessment of their development with a sufficient degree of reliability. All of them are quite complex, and foreign ones, moreover, are not well adapted to national conditions.

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