



THE CAPITAL OF A COMMERCIAL BANK AS A GUARANTEE OF BANK STABILITY

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Annotation

The article is devoted to the problems of forming the capital of a commercial bank, its functions and the importance of determining the reliability of the bank among customers. Since the confidence of bank depositors is an indicator of the reliability of the entire banking system, control over the amount of the bank's own capital is carried out by government agencies. The article also presents the main indicators characterizing the liquidity and financial stability of the bank. The term "capital adequacy" is studied and the algorithm for its calculation is considered. Capital adequacy is an important category of financial stability of a commercial bank, the size of which reflects the bank's ability to withstand risks, the overall efficiency of banking activities.

Keywords: capital, bank capital, bank capital function, bank stability, financial stability, capital management, commercial banking.

Introduction

In recent years, optimization of the bank's equity capital has attracted special attention of the world community and science. This is due to the fact that the financial results of the credit institution, as well as the possibility of increasing investments in the country's economy and expanding the range of services provided to the bank's clients, largely depend on the size of the bank's equity capital. The main goal of the bank's capital management process is to attract and retain sufficient capital to expand operations and create protection against risks. The bank's equity capital is a specific source and source of financing for the bank's activities, on which the bank's image and its ability to carry out economic activities depend. Increased pressure on banks, the risk of losing licenses for non-compliance with standards, the need for long-term planning of volumes and sources of capital growth. Of particular importance are two indicators, such as “capital adequacy ratio” and “quick liquidity ratio”. The value of the first indicator



shows how much the bank uses its capital in operations. A high rate means that the bank is more at risk with its own money than with depositors' money.

It is known that the trust of customers, especially the trust of depositors of a commercial bank, is an indicator of the reliability of not only a particular bank, but of the entire banking system, therefore, the size of the bank's capital and its constant increase is important. At the same time, in the conditions of a market economy and a digital economy, international financial and credit relations and the globalization of the world economy, as well as the intensification of competition between commercial banks, raise the question of adapting their capitalization to market requirements. This is due to the fact that capital serves as the main source of financing to protect against unforeseen losses in the activities of commercial banks and to determine the appropriate standards for transactions with assets. In international practice, despite the serious attention paid to this issue after the global financial and economic crisis, there are a number of problematic situations.

Despite a number of effective reforms in the banking system of Uzbekistan in recent years, there are still pressing problems that need to be addressed. This issue is reflected in the Decree of the President of the Republic of Uzbekistan Sh.M. Mirziyoyev "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025", which states that the state occupies a dominant position in the banking sector, which accounts for more than 87% of the total banking sector. capital. increase the minimum capital requirements for banks, including taking into account the accession of the Republic of Uzbekistan to international economic organizations and the integration of the banking system into the international financial system, strict compliance with capital adequacy and liquidity requirements, revision of existing requirements and their banking supervision - this provision is implemented by harmonization with the standards of the Basel Committee [1].

At the same time, in the Address of the President of the Republic of Uzbekistan Sh.M. Mirziyoyev to the Oliy Majlis, we are preparing for the privatization of Sanoatkurilishbank, Asaka Bank, Ipoteka Bank, Aloka Bank, Turon Bank and Qishloq Qurilish Bank in 2021. The state share in at least one large bank will be completely sold to strategic investors. On this occasion, negotiations are underway with leading European banks, "he said. This indicates the seriousness of the issue of forming the capital of commercial banks on the basis of market principles, increasing the capitalization of banks [2].



Research methodology

The article provides a systematic analysis of the literature on the study of capital and its increase in commercial banks. Also, the scientific findings of studies carried out by foreign and domestic scientists in this area were studied, and independent approaches were formed.

Analysis of relevant literature

Today we want to dwell on this economic category in more detail, taking into account different interpretations of the views of local and foreign economists on the nature of banking capital.

In particular, today there is no consensus on the economic nature, functions and sources of bank capital. In our opinion, the main reason for this is that in a market economy, economic and financial relations are constantly changing under the influence of available resources and traditions. This, in turn, is reflected in the bank's capital, capitalization and other processes. The classical economist A. Smith described "a bank - transforms the dead capital of individual entrepreneurs, which is considered extremely valuable for society, but is temporarily not used for them, into active and productive capital" [3].

This means that banks are mobilizing fixed capital, transforming it into a new force creating value that contributes to the development of society.

Wealthy businessmen could also direct their temporarily surplus funds directly to capitalists who needed it, but as a result of this process, carried out through banks, "investment risks are redistributed."

This means that banks take on investment risks, accumulating temporarily free funds of entrepreneurs and converting them into capital, that is, recreating value. Describing the essence of banks, Marx emphasized that they accumulate large amounts of loan capital in their hands. Marx also noted in his famous work "Capital" that in the activities of banks, due to their specific features, that is, banks accumulate savings of commercial and industrial capital, they have loan capital [4]. Likewise, while acknowledging the definition of bank capital as a "valuable" source by foreign economist Chris Barltrop, we would like to emphasize that there is also a one-sided emphasis on the nature of capital. However, bank capital can act not only as a valuable resource, but also as an additional source and means of protection [5].



The “cost” of capital is that the bank will issue ordinary shares, place them in financial markets and incur other costs associated with the process in order to create and increase its capital.

In world practice, capital performs three main functions: protection; operation; regulator [6].

Based on the fact that most of the bank's assets are formed at the expense of borrowed funds, the main function of its capital is to protect against possible risks and protect the depositor's funds. We can say that the protection function includes the payment of compensations to depositors, payments to ensure the fulfillment of obligations not covered by the bank's assets. The protection function is also responsible for creating special reserves to cover various risks and maintaining the credit institution's solvency.

The second important function is the operational function. Its essence is that the reserves of the material and technical base of the bank are formed at the expense of its own capital. This is an important part of the initial stages of the activity of commercial banks on the formation of the material and technical base of the bank's investment in the initial capital by the founders.

According to its operational function, equity is the basis and potential for increasing the value of banking assets. This may determine the minimum capital of conservative banks in comparison with the capital of banks that prefer risky activities.

The regulatory function is related to the interest of state bodies in the sustainable operation and development of banks. The fact is that the financial stability of one bank and the banking system as a whole depends on the activities of enterprises and organizations, the safety of deposits, and so on.

Local economist A. Omonov described banking capital as a stable source of financing for commercial banks and a means of protection that helps to cover losses incurred in the operational process [7]. Here we would also like to emphasize the importance of the essence of capital as a sustainable source and means of protection.

Another local economist, M. Egamova, said that capital is needed for the bank to start working. In the future activities of a commercial bank, it will serve the development of the bank, ensure financial stability and increase profitability. At the same time, bank capital is a reserve to protect against unforeseen losses, and bank capital is also used as a source of financing for long-term investments. [eight].



Of course, the issue of the bank's solvency is one of the most important aspects when launching and organizing its activities.

Recent research offers a different explanation, and the fact that capital ownership exceeds regulatory requirements is similar to market discipline for banking assets. In our view, this encourages banks to retain excess capital due to competition, as it implies a commitment to monitoring, tracking and attracting suitable borrowers. In addition, it is believed that the level of capitalization has a certain influence on the type of lending behavior, for example, banks that provide loans to information-sensitive borrowers have a higher capital adequacy ratio [9]. It provides information on the relationship between the stability or fragility of commercial banks in a competitive environment, the role of competition in the solvency of banks, and how competition affects the stability of the banking sector, thereby focusing on the competitiveness of banks.

We found that the level of bank capital was inversely proportional to the likelihood of a systemic banking crisis, in particular, an increase in the capital adequacy ratio by one percent reduced this probability to one percent. It also had an asymmetric effect on the credit cycle, so the increase in the capital adequacy ratio before the credit crisis slowed down credit growth. Conversely, in a regime where credit growth is low or negative, an initial increase in the capital adequacy ratio increased average loan growth or decreased loan contraction [10]. Here the author showed and substantiated his analysis of the relationship between capital adequacy and average credit growth.

Analysis and results

The above analyzed the economic content, structure, theoretical foundations of bank capital management and the current state of capital management in commercial banks.

To assess the current state of capital management of commercial banks in Uzbekistan, it is advisable to analyze the composition of their capital. To do this, we analyze the composition and dynamics of their total capital using the data in the table below.

The analysis is aimed at identifying key trends in the structure and dynamics of capital.

The following table provides information on the capitalization of Asaka Bank as of December 31, 2016-2019. And Q3 2020

Capitalization level of JSCB "Asaka Bank" [11] (As of December 31)

Indicators	2017y.		2018y.		2019y.		2020y. (3 rd quarter)	
	Billion soums	%	Billion soums	%	Billion soums	%	Billion soums	%
Charter capital	2098,8	93,8	2098,8	68,8	5683,0	95,4	5633	92,0
Additional capital	3,7	0,2	3,7	0,1	3,7	0,1	3,7	0,1
Reserve capital	51,6	2,3	54,6	1,8	60,8	1,0	79,4	1,3
Undistributed profits	82,5	3,7	894,2	29,3	209,7	3,5	404,1	6,6
Total capital	2236,6	100	3051,3	100	5957,2	100	6120,2	100

Looking at the table above, the total capital of Asaka Bank in Q3 2020 increased 2.6 times compared to December 31, 2017, and also steadily increased during the analyzed period with a sharp increase in 2019. From the data in the table it can be seen that the additional capital of the bank during the analyzed period remained unchanged. From this we can conclude that the bank's shares do not have a high reputation in the financial market or there may be errors in their accounting in the prescribed manner, because the difference between the nominal and market prices of the bank's shareholder should have arisen somehow.

Changes over the years This situation improved significantly by 2019, when the overall capital growth trends in 2017 were lower than in previous years. The increase in the total capital was mainly due to the increase in the authorized capital. During the analyzed period, the authorized capital of the bank increased 2.7 times. The authorized capital of the bank did not change in 2018 compared to 2017, increased by 170% in 2019 compared to 2018 and decreased by almost 1% in the 3rd quarter of 2020 compared to 2019.

This is an important and integral part of the financial resources of the bank's equity capital. With this in mind, we look at the capital and other financial indicators of commercial banks.



Table 1 Financial indicators of commercial banks of the Republic of Uzbekistan
[12] (in billion soums)

№	Indicators	2016 y	2017 y	2018 y	2019 y	2020 y
	GDP	199325,1	302536,8	407514,5	511838,1	580203,2
1.	Bank assets	84075,0	166632	214419,6	272726,7	366121,1
	Share of bank assets in GDP (%)	42,1	55,1	52,6	53,3	63,1
2.	Bank capital	8981,3	20676,1	26678,9	51030,6	58351,3
	Share of bank capital in GDP (%)	4,5	6,8	6,5	9,9	10,1
3.	Bank loan investments	52610,5	110572,1	167390,6	211581,0	276974,8
	Share of bank loans in GDP (%)	26,4	36,5	41,1	41,3	47,7
4.	Commercial bank deposits	36341,0	59668,5	70001,4	91009,0	114746,9
	Share of bank deposits in GDP (%)	18,2	19,7	17,2	17,8	19,8

The table above shows the dynamics of assets, loans and deposits of commercial banks in 2016-2020 and their share in GDP. The financial indicators of commercial banks tend to grow from year to year, and their share in GDP also tends to increase. The higher the share of these indicators in GDP, the more positive it is, which, in turn, indicates an increase in the financial stability of commercial banks and a strengthening of the resource base.

If you look at the share of key indicators of the banking system in the country's GDP, that is, its share in the economy, you can see that the total assets of the bank in 2019 amounted to 272,726.7 billion soums, or 53.3% of GDP. By 2020, this figure will increase by 10% to 63.1% and will reach 366 121.1 billion soums. If we pay attention to the capital of the republic's commercial banks, then we will see growth here too. In 2019, the total capital reached 51,030.6 billion soums, its share in GDP was 9.9%, and in 2020 - 58,351.3 billion soums, or 10.1%.

Increasing the level of capitalization of commercial banks, their financial stability, full availability of financial resources and growth of credit resources play an important role in the development of the country's economy.



In order to increase the level of capitalization of commercial banks of the Republic of Uzbekistan, ensure and strengthen their financial stability, it is advisable to: increase the level of capitalization of banks; banks issue their own securities and constantly increase profits; strengthening the stability of the banking system by improving asset quality and profitability, as well as strengthening the resource base; further strengthening of financial stability by increasing the profitability of commercial banks; issuance of certificates of deposit and other long-term securities by commercial banks, etc.

In short, an increase in the capital and financial stability of commercial banks in the country will serve to ensure the stability of the banking system.

Conclusions and Offers

The analysis carried out when writing a scientific article showed that:

- Different approaches of foreign and domestic scientists to capital;
- In 2016-2020, the country experienced relatively high rates of capital growth in commercial banks;
- The main part of the aggregate capital of commercial banks consists of fixed capital, and fixed capital consists mainly of special reserves and authorized capital;
- The additional capital base of commercial banks in Uzbekistan is very weak;
- The share of net profit and retained earnings of the current year in the capital of commercial banks is not high.

Raising capital from external sources is possible in several ways: issuing shares, issuing debt securities for capital, selling assets and leasing real estate. Issuing and selling preferred shares is costly and the cost of offering shares is high. Additional issue of shares, as a rule, leads to an increase in several elements of capital at the same time: authorized capital, share premium, reserve capital. Credit institutions often turn to external sources when it is necessary to ensure the rapid circulation of large amounts of funds. Such a situation can arise in conditions of hyperinflation, when the capital of banks is rapidly declining, and profits are not enough even to cover losses. If the banking supervisory authorities take into account the capital adequacy norms, then the task of banks is to quickly and significantly increase capital, which is possible only through external sources.

According to the second method, the main source of capital increase is the bank's retained earnings. This is one of the easiest and relatively inexpensive ways to raise capital for a bank looking to expand its business. This approach to raising capital does not create the risk of losing control over the bank and reducing the



yield of shares due to the increase in the number of shares in circulation. Changes in economic conditions, exchange rates, interest rates, in other words, changes that the bank cannot directly influence, have a significant impact on profitability. The net profit remaining at the disposal of the bank after taxes is not of great importance for the bank's capital management. Low profitability leads to slow growth of internal sources of capital, which increases the risk of bankruptcy, limiting the growth of assets and income. A higher share of profits spent on capital increases leads to a decrease in dividends paid to shareholders. The disadvantages of this method of capital replenishment are: the benefits of raising capital are fully subject to federal taxes; slow capital growth; dependence of the bank on factors outside the sphere of its direct influence. The bank's equity capital is an important source of financial resources and forms the basis of the bank's activities. It is designed to maintain customer confidence in the bank and convince lenders of financial soundness. Thus, the bank's own funds must be large enough for borrowers to be confident that the bank will be able to meet their credit needs even in the unfavorable economic conditions of the national economy.

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