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Issues of Attracting Private Capital to the Banking System of the Republic of Uzbekistan

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Annatation. The article examines the increase in capital of commercial banks and the factors influencing it on the basis of theoretical and practical data. Also, based on the study of foreign experience, it is argued that the increase in asset quality in banks will directly improve the quality of credit services provided by banks, reduce problem loans and the use of credit scoring system. A number of specific aspects of the use of credit scoring system in improving the quality of assets of commercial banks have been studied in detail on the basis of theoretical and practical data, scientific proposals and practical recommendations have been developed on the basis of author's approaches.

Key words: capital of banks, authorized capital of a bank, capitalization of commercial banks, innovation, digital technologies, commercial banks, banking innovations, assets of banks, liabilities of banks, banking operations, deposit

1. Introduction.

In order to ensure the financial stability of banks and protect the interests of depositors and creditors, it is necessary to comply with prudential standards set by the Central Bank, and one of these prudential standards is the liquidity ratio, which determines the need to establish a reliable liquidity system in banks [1].

One of the main risks for banks in the Republic of Uzbekistan is to improve the quality of credit portfolio and risk management, pursue a moderate growth of lending, pursue a balanced macroeconomic policy, ensure technological stability of the banking system through the implementation of technological solutions for assessing financial risks liquidity risks will need to be identified and managed early [2].

It is known from international banking practice that the primary means of ensuring the solvency and liquidity of commercial banks is to strengthen their capital base. In turn, the strengthening of the capital base of commercial banks will be achieved by improving the system of effective capital management. At present, there are a number of issues that need to be addressed to ensure the stability of the capital of commercial banks of the country. In particular, the problem of effective management of the authorized capital of commercial banks and the efficiency of the use of bank assets.

We know that devaluation reserves on the balance sheet of a commercial bank are formed when the exchange rate of the national currency against a foreign currency decrease. Devaluation reserves are included in the fixed capital of commercial banks and are not a relatively stable source of financing for banking activities. As Chris Barltrop, an expert with the World Bank for Reconstruction and Development, puts it: "Bank capital is a reliable and relatively expensive form of financing banking activities" [3]. Therefore, it is expedient to include the amount formed on the balance sheet of a commercial bank at the expense of devaluation reserves in the additional capital structure.

2. Literature review.

Theoretical, methodological and practical issues of increasing capitalization, managing assets and liabilities of commercial banks were studied in the scientific works of foreign scientists, economists such as E. Gill, T. Koch, E. Reed, X. Grüning, E. Dollan, L. Roger, A. Simanovsky, O. Lavrushin, V. Usoskin, G. Panova, J. Sinki, R. Kotter, W. Soto, Moiseev, E. Zhukova, G. Beloglazova, N. Valentseva, A. Gavrilenko, V. Kolesnikov, G. Korobova, L. Batrakova, A. Litvinova, O. Ovchinnikova, G. Panova, V. Rodionova, I. Rykov, G. Tosunyan and others [4].

Scientific approaches to increasing capitalization, managing assets and liabilities of commercial banks have found practical implementation in the works of local scientists, economists and specialists such

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as: Sh. Abdullaeva, T. Bobakulov, B. Berdiyarov, T. Karaliev, F. Mullazhanov, A Omonov, N. Kholmurodov, R. Tajiev, R. Shomurodov, N. Karimov, I. Taimukhamedov, M. Nurmuratov, Z. Kholmakhmadov and many others.

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 made an attempt 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 banks real need for it [5].

The analysis of this problem revealed the lack of comprehensive studies on the issue of capitalization of commercial banks in Uzbekistan. There are no clearly developed and used in practice measures on this topic. The very concept of capitalization is still not associated with the market interpretation of this term in relation to domestic credit institutions. 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 use the term capitalization, meaning by this own funds or equity capital of banks and its sufficiency to cover risks" [6].

According to our local scientist R. Shomurodov, an expert on monetary policy: 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. Bank loans also 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 [7].

Economist V.Usoskin paid special attention to improving the quality of loans and cash assets, which are the main types of assets of commercial banks. In order to improve the quality of the loan portfolio, V. Usoskin proposes to improve the system of assessing the creditworthiness of customers, strict adherence to the principle of diversification in the formation of the loan portfolio [8].

N. Sokolinskaya believes that the main focus in asset management and quality improvement should be on their profitability and liquidity [9].

The research of LG Batrakova, the nature of interest rate risk in the implementation of deposit policy, assessment, management and the process of establishing a system of measures for insurance are studied [10].

3. 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.

4. Analysis and discussion of results.

The meaning of the capitalization process is to increase the value 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, 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 [11]

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Table 1
Information on assets, loan capital and problem loans of banks of the Republic of Uzbekistan (Trillion soums) [12]

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 2
Problem loans of banks of the Republic of Uzbekistan Share in assets, risky assets, loans (at the beginning of the year, in%) [13]

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" [14], and therefore banks always take appropriate measures to address these shortcomings.
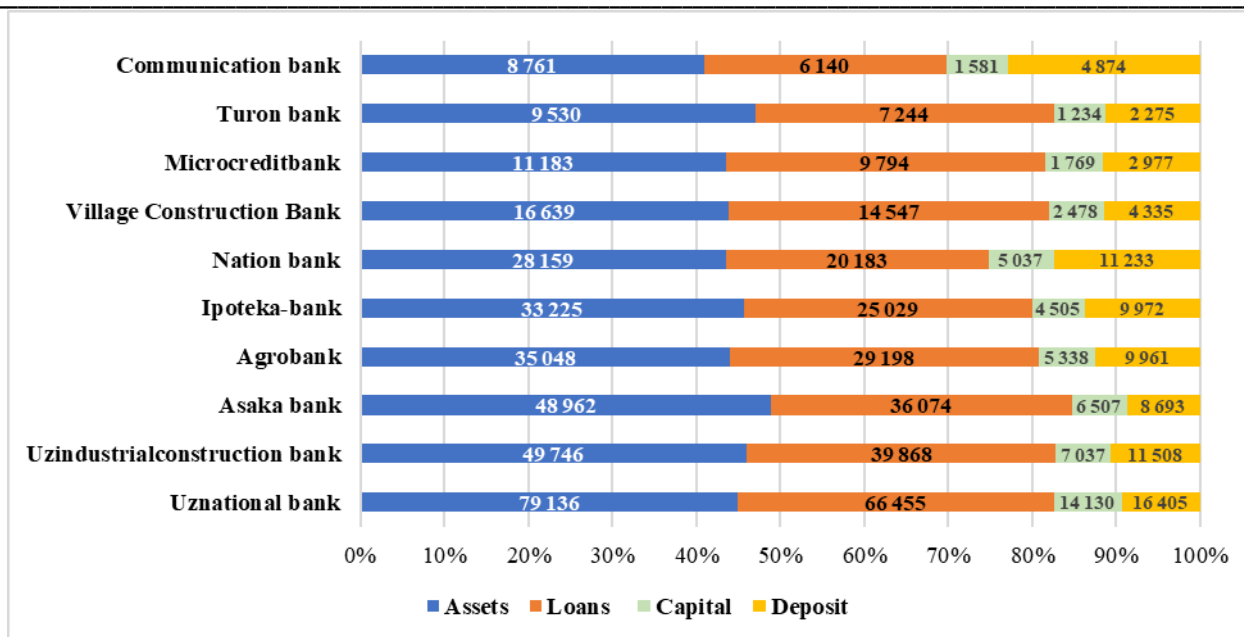
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Figure 1. Key indicators of state commercial banks of the Republic of Uzbekistan as of 2021 Top-10 (in billion soums) [15]

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.

The level of risk exposure of bank assets also plays an important role in ensuring the stability of the capital of commercial banks. The fact that a significant part of the assets of commercial banks of the country consists of cash assets indicates a low level of efficiency in the use of banking resources, including bank capital, which, in turn, indicates the stability of bank capital.

In addition, the use of documented letters of credit, which are the main form of cashless payments in international banking practice and allow commercial banks to earn a high level of income, remains low. The main reason for this is that in the banking practice of the country, mainly secured letters of credit are used, ie our banks use the account No. 22602 "Customer deposits under the letter of credit" when making payments under the letter of credit.

This is a positive situation from the point of view of capital equilibrium. However, the efficiency of commercial banks is assessed as a negative situation from a profit point of view. This is because the relatively small share of high-risk assets in the assets of a commercial bank leads to a relatively high level of total capital adequacy. The higher the risk level of the assets, the higher their rate of return. Therefore, a high level of total capital adequacy may indicate a low level of return on bank assets.
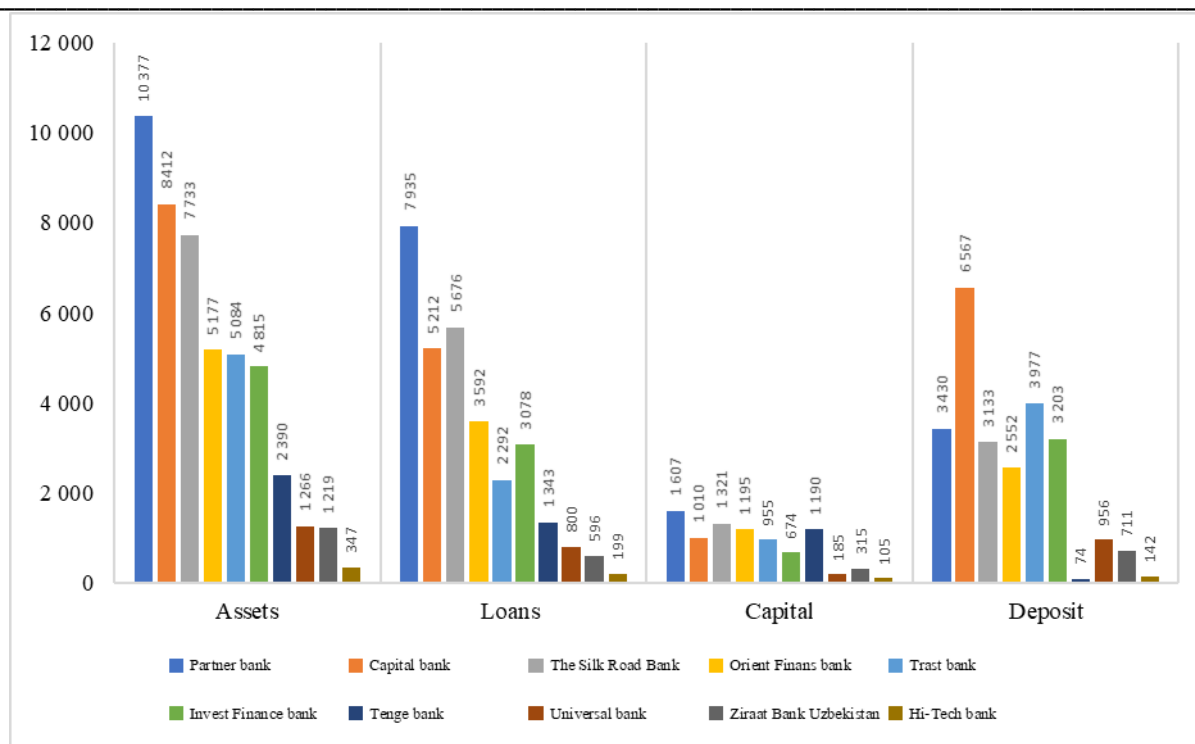
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Figure 2. The main indicators of private banks with foreign capital operating in the Republic of Uzbekistan as of 2021 Top-10 (in billion soums) [16]

The picture above shows the main indicators of private banks with foreign capital operating in Uzbekistan, with Partner Bank ahead with total assets of 10,377 billion soums. Capital Bank attracted deposits with 6,667 billion soums.

In short, in order to ensure the stability of the capital of commercial banks, it is expedient to take the devaluation reserve from the fixed capital structure and include it in the additional capital structure, and this year's net profit from the additional capital structure to include the fixed capital structure. At the same time, increasing the participation of commercial banks in the secondary securities market and a relative reduction in the amount of cash assets are also important factors in increasing the stability of bank capital.

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5. Conclusions and suggestions.

Based on the results of the study of the theoretical foundations for increasing the capitalization of commercial banks in the context of the introduction of innovations, the following scientific conclusions, proposals and recommendations were formulated:

1. In a broad sense, the market capitalization of a company is an assessment of the company's value through the total market valuation of its shares admitted to trading on the stock exchange, the increase in the company's value due to profit, goodwill and market expectations.

2. To increase capitalization and reduce banking risks, the transition to digital technologies in all aspects of banking is rapidly developing.

3. In order to increase capitalization, strengthen liquidity and financial stability of commercial banks of 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. institutions for the development, testing, and further implementation of modern advanced banking technologies.

4. 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

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system are interdependent indicators, as they are determined by the state of the economic environment within which banking activities are carried out.

5. In their activities, commercial banks have to take into account various nuances. In particular, the nature of the risks is of considerable importance. There are external and internal causes of their occurrence. The category of the first includes those risks that are not directly related to the activities of the bank. These are losses incurred as a result of some serious events.

6. Market capitalization, as an objective process, is determined by two types of factors: A) external globalizing environment or external (global) factors; B) the internal state of the national economy or internal (national) factors.

7. Own capital is formed from the contributions of the founders, profit and funds formed from it. It is a combination of different purpose, fully paid elements that ensure the independence, stability and stability of the bank.

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