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THEORETICAL FOUNDATIONS FOR INCREASING THE CAPITALIZATION LEVEL OF COMMERCIAL BANKS

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Annotation: This article presents safe methods for increasing the capitalization level of commercial banks. In addition, it analyzes the amount and dynamics of the capital of commercial banks in our republic, as well as the share of authorized capital in their own funds, and provides relevant conclusions.

Keywords: commercial banks, capitalization level, resource base, capital, authorized capital.

Introduction

In the *Action Strategy for the Further Development of the Republic of Uzbekistan*, increasing the capitalization level and deposit base of banks, as well as strengthening their financial stability and reliability, has been identified as one of the top priorities [1]. In order to timely and effectively implement these objectives, the Presidential Decree of the Republic of Uzbekistan No. PF-5992 dated May 12, 2020, "On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020–2025," outlines a phased increase in the minimum authorized capital of banks to 500 billion soums by 2025 [2].

At present, in order to raise the capitalization level of commercial banks in our republic, several issues still need to be resolved. In particular, the low capitalization level of commercial banks, the allocation of significant state budget funds in recent years, the weak activity of commercial banks in the stock market both as issuers and investors, their inability to provide high-quality services to clients, the weakness of the resource base, the low share of bank capital in GDP, and similar problems remain pressing challenges.

Literature Review

In the existing economic literature, the concept of "capitalization level" and issues related to its increase have been studied by foreign scholars and experts, and corresponding definitions have been provided. For instance, in A.B. Borisov's *Comprehensive Economic Dictionary*, capitalization is defined as "the part of a bank's capital that has grown due to the issuance and sale of securities, and the allocation of a portion of income to form specific reserves" [3].
In the research of A.S. Klimov, the term "capitalization" is described as "the market value of a credit institution's capital, calculated by multiplying the number of shares by their market price" [4].

Professor A. Omonov, in his doctoral dissertation in economics titled *"Issues of Effective Management of Commercial Bank Resources"*, provided a detailed classification of the factors influencing the capitalization level of commercial banks [5].
Similarly, I.B. Tursunov, in his research work, substantiated that the capitalization of a particular bank largely depends on the absolute volume of its equity capital [6].

Research Methodology
In preparing this article, practical data related to increasing the capitalization level of commercial banks were analyzed. All utilized information was studied by the author based on current legal regulations and statistical indicators provided by the Central Bank. The research employed methods such as grouping, comparison, systematic approach, and structural analysis.

Analysis and Results

In global theory and practice, there are two main approaches to interpreting the term "capitalization" [4].

The first approach is closely linked to the stock market, within which market capitalization is considered the value of a company's securities based on their quotations on the stock exchange.
The second approach defines capitalization as the process of increasing capital through profits.
This perspective associates capitalization with the amount of a financial institution's own equity, as well as with the capital adequacy level in accordance with the internationally recognized Basel and Basel I agreements.
Taking into account the consequences of the global financial crisis, the Basel Committee on Banking Supervision approved the new *Basel III* standard in September 2010, which significantly tightened the capital requirements for financial institutions.
In order to comply with the new regulations, banks increased the minimum capital adequacy ratio of Tier 1 capital from 2% to 4.5% by 2019.

Each bank is required to establish a special capital buffer amounting to 2.5% of its assets.
According to the new requirements, the total minimum requirement for core (Tier 1) capital is set at 7%. The capital adequacy ratio for Tier 1 capital has been increased from 4% to 6%.

It is worth noting that, under the new regulations, the capital of commercial banks must consist of no less than 50% of common equity and retained earnings. In addition, the Basel Committee recommends that the level of debt capital should not exceed 25 times the amount of capital.
Although the committee's decisions are advisory in nature for regulatory authorities, most developed countries have adopted these recommendations almost entirely in forming their banking requirements frameworks.

The issue of determining bank capital adequacy has long been the subject of academic research and remains a matter of debate between banks and regulatory authorities. While banks prefer to use minimal capital in order to maximize profits and ensure asset growth, regulatory bodies demand higher capital levels to reduce the risk of bankruptcy.
At the same time, it is argued that bankruptcy often results from poor management, and that well-managed banks may perform effectively even with lower levels of capital adequacy.
In international practice, the amount of authorized capital is not strictly limited by law. However, in order to ensure the stability of the banking system, regulatory authorities set a minimum threshold for the authorized capital of commercial banks.
There is no unified approach to determining the minimum level of bank capital. Historical, legal, and economic factors play a role in this variation, and the practice of licensing banking activities differs from country to country.

Countries that impose minimum capital requirements for banks mostly include those in the Asian region (see Table 1).

Table 1
Countries with the Highest Requirements for Bank Equity Capital
(*as of January 1, 2010, in million euros*)

Country	**National Banks**	**Foreign Banks**	**Branches of Foreign Banks**
Singapore	722,8	722,8	96,4
Malaysia	392.6	58,9	-
Indonesia	211,8	211,8	211,8
Taiwan	204,9	204.9	3.1
Bahrain	175,4	66,0	-
Kuwait	173,5	173,5	34,7
Nigeria	111,7	111,7	111,7
Thailand	99,6	79,2	
Israel	99,2	99,2	
China	96,8	29,0	

The European Union countries have taken the lead in standardizing the minimum level of bank capital, where a unified norm for private capital has been adopted, requiring it to be no less than 5million #euros.
The spread of the European standard has led to the fact that most countries around the world now set the minimum capital requirement within the range of 1 to 5 million euros.

In recent years, special attention has been paid to increasing the capitalization of banks in Uzbekistan. In this regard, a number of Presidential Decrees and Resolutions have been adopted by the President of the Republic of Uzbekistan.

Table 2
Minimum Authorized Capital Requirements for Commercial Banks Operating in the Republic of Uzbekistan

Years	**For Joint-Stock Commercial Banks**	**For Banks Established with Foreign Capital Participation**	**For Private Banks**
January 1, 1998	1.5 million USD equivalent in Uzbek soums	5.0 million USD equivalent in Uzbek soums	0.3 million USD equivalent in Uzbek soums
January 1,	2.0 million USD	5.0 million USD	0.3 million USD

1999	equivalent in Uzbek soums	equivalent in Uzbek soums	equivalent in Uzbek soums
January 1, 2000	2.5 million USD equivalent in Uzbek soums	5.0 million USD equivalent in Uzbek soums	0.3 million USD equivalent in Uzbek soums
January 1, 2002	2.5 million USD equivalent in Uzbek soums	5.0 million USD equivalent in Uzbek soums	1.25 million USD equivalent in Uzbek soums
January 1, 2005	5 million USD equivalent in Uzbek soums	5.0 million USD equivalent in Uzbek soums	2.5 million USD equivalent in Uzbek soums
January 1, 2008	5.0 million EUR equivalent in Uzbek soums	5.0 million EUR equivalent in Uzbek soums	5.0 million EUR equivalent in Uzbek soums
January 1, 2011	10.0 million EUR equivalent in Uzbek soums	10.0 million EUR equivalent in Uzbek soums	5.0 million EUR equivalent in Uzbek soums
October 1, 2017	**100 billion UZS**		
September 1, 2023	**200 billion UZS**		
April 1, 2024	**350 billion UZS**		
January 1, 2025	**350 billion UZS**		

As is known, starting from **September 1, 2023**, the minimum amount of the **authorized capital of banks** is required to be **200 billion UZS** [12]. This provision was established by a draft law adopted in **October 2022** and enacted in **April 2023**. In accordance with the amendments introduced to **Article 13** of the Law of the Republic of Uzbekistan "On Banks and Banking Activities", the Central Bank has officially announced that the minimum authorized capital of banks must amount to **200 billion UZS from September 1, 2023**, and **500 billion UZS from January 1, 2025**, to be implemented gradually.

However, at present, **not all commercial banks** have been able to fully meet the newly established minimum capital requirements. This can be seen in the following table.

Conclusion and Recommendations

In conclusion, **commercial banks must seek and identify effective opportunities to increase their authorized capital**. Otherwise, failure to comply fully with Presidential Decree No. PQ-5992 dated May 12, 2020, may hinder the implementation of strategic reforms. This, in turn, could **jeopardize the continuity of commercial banks' operations**.

It is evident that **commercial banks in Uzbekistan need to significantly increase the amount of their authorized capital within a short period of time**. In addition, there are **issues related to the placement of shares issued by these banks**.

The **average annual dividend rates** offered by the banks are almost equivalent to the **interest rates on deposits**, and they tend to be **volatile**, as the amount of dividends may decline due to operational or financial challenges faced by the banks.

Moreover, **share premiums (emission income)** within the capital structure of commercial banks are **negligible**. As a result, the **shares of domestic banks are traded at nearly their nominal value** on the securities market, with **no effective mechanisms or factors influencing their real market price**.

The analysis carried out has led to the following conclusions:

- A **regulatory and legal framework** has been developed and adopted in Uzbekistan that provides significant opportunities for increasing the **capitalization level of banks**.
- The **ratio of total bank capital to the country's GDP** is slightly above **6%**, and in recent years, this figure has shown a **declining trend**.
- The **market capitalization** of domestic banks is **almost five times lower** than their total capital.

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