

## THE ROLE OF CAPITALIZATION IN THE EXPANSION OF THE PARTICIPATION OF COMMERCIAL BANKS IN FINANCING INVESTMENT PROJECTS

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### ABSTRACT

*The article examines the constant problem facing commercial banks, its level of capitalization and the factors affecting it in order to maintain its high efficiency, solvency, liquidity in the conditions of market relations. The impact of the level of capitalization of commercial banks on the investment activity of the bank is analyzed in the integration relationship. Conclusions have been drawn that the organization of investment lending on an economic basis helps to ensure that capital expenditures are inextricably linked with the end results of activities, increasing the interest in choosing the most cost-effective options to increase efficiency. Capital debt obligations, which motivate the active search for opportunities to increase profits from investment activities, studied as a source of repayment of the principal amount of the debt and its interest. The current level of capitalization of commercial banks in Uzbekistan is studied. Scientific proposals and practical recommendations for expanding the participation of commercial banks in financing investment projects by increasing the level of capitalization are given.*

**KEYWORDS:** *Capitalization Level, Deposit Base, Issue Income, Capital Adequacy, Investment Market, Devaluation Reserve, Bank Charter Capital, Capital Structure Of Commercial Banks.*

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### INTRODUCTION

During the years of independence, Uzbekistan has carried out large-scale reforms to increase the competitiveness of commercial banks through the development of modern banking services. In the framework of the third priority area of the Action Strategy for the five priority areas of development of the Republic of Uzbekistan for 2017-2021: strengthening, promising investment projects and further expansion of lending to small businesses and private entrepreneurship, as well as expanding the volume of financial services through the introduction of new types and improving their quality, as well as attracting capital and enterprise,

In ensuring the implementation of the above two priorities, the Board of Banks of the Republic has implemented such important areas as the introduction of modern management methods and

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increasing the activity of banks in the stock market, the provision of brand new investment banking services through proper organization of market-making functions. the development of effective mechanisms of increase is required.

PD-4720 of the President of the Republic of Uzbekistan dated April 24, 2015 "On measures to introduce modern methods of corporate governance in joint stock companies", PD-4947 of February 7, 2017 "On further development of the Republic of Uzbekistan" Decrees "On the Action Strategy", No. PP-3270 of September 12, 2017 "On measures to further develop and increase the stability of the banking system of the Republic" and PP-3620 of March 23, 2018 Resolutions on "Additional measures to increase the popularity of banking services" and justify the implementation of research to improve the practical implementation of the tasks set out in other regulations, determine the relevance of this topic.

## LITERATURE REVIEW

Studies on the role of the level of capitalization in expanding the participation of commercial banks in financing investment projects have been studied in detail by foreign economists A. Epifanov, N. Maslak, I.V.Salo [1]. O. Vovchak conducted research aimed at highlighting the specifics of credit activities of commercial banks, theoretical and methodological aspects of regulation and management of investment banks [2]. The basis of H.Davis's research is the development of scientific proposals and practical recommendations aimed at improving the development of financing opportunities for investment projects by commercial banks [3]. O.D. Zhilan [5], MR Danilova studied the theoretical foundations of financing investment projects by commercial banks, based on the role of commercial banks in the system of financing investment projects. The process of assessing the use of funds raised by commercial banks in expanding the financing of investment projects, analyzing the dynamics of financing investment projects, evaluating the effectiveness of commercial banks in financing investment projects is of particular importance in K.M.Zunnunova's research [6]. The process of assessing the use of funds raised by commercial banks in expanding the financing of investment projects, analyzing the dynamics of financing investment projects, evaluating the effectiveness of commercial banks in financing investment projects is of particular importance in K.M.Zunnunova's research (Zunnunova K.M, 2008). , 2017). The process of assessing the use of funds raised by commercial banks in expanding the financing of investment projects, analyzing the dynamics of financing investment projects, assessing the effectiveness of commercial banks in financing investment projects is of particular importance in K.M.Zunnunova's research (Zunnunova K.M, 2008).

M.RKulmetov's research examines the sectoral and regional problems of financing investment projects by commercial banks in the light of the competitive environment between commercial banks [7].

The above research does not substantiate ways to expand the participation of commercial banks in financing, systemic directions that serve to form the direction of effective use of resources of commercial banks in financing investment projects.

## RESEARCH METHODOLOGY

Research methods such as scientific abstraction, logical substantiation, comparative analysis, comparative analysis, induction and deduction, structural analysis were widely used in the research work.

## ANALYSIS AND DISCUSSION OF THE RESULTS

The Action Strategy for the further development of the Republic of Uzbekistan identifies the issue of increasing the level of capitalization and deposit base of banks, strengthening their financial stability and reliability as one of the priorities. In order to fulfill these tasks in a timely and effective manner, the charter capital of the President of Uzbekistan dated September 12, 2017 PP-3270 "On measures to further develop and enhance the stability of the banking system of the Republic" from October 1, 2017 (fund) minimum amount of newly established: to commercial banks - 100.0 billion soums; microcredit organizations - 2.0 billion soums sum; to pawnshops - 500 million soums.

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, it is important to strengthen the capital base of commercial banks at the expense of a number of financial sources, in particular, at the expense of the bank's profits.

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 presence of unstable sources of capital, the fact that some banks are below the minimum level of capital, and others. The following table provides general information on the capital and share of banks in the country.

**TABLE 1 CAPITAL AND SHARE OF COMMERCIAL BANKS OF UZBEKISTAN (AS OF JANUARY 1, 2020) [8]**

| <b>№</b> | <b>Name of banks</b>                 | <b>billion soums</b> | <b>Share, in percent</b> |
|----------|--------------------------------------|----------------------|--------------------------|
|          | <b><i>Banks with state share</i></b> | <b><i>16 672</i></b> | <b><i>81%</i></b>        |
| 1.       | O'zmilliybank                        | 4 807                | 23,2%                    |
| 2.       | Asaka bank                           | 3 083                | 14,9%                    |
| 3.       | O'zsanoatqurilishbank                | 2 241                | 10,8%                    |
| 4.       | Ipoteka bank                         | 1 258                | 6,1%                     |
| 5.       | Qishloqqurilish bank                 | 1 168                | 5,7%                     |
| 6.       | Xalq banki                           | 1 351                | 6,5%                     |
| 7.       | Agrobank                             | 1 374                | 6,6%                     |
| 8.       | Aloqa bank                           | 398                  | 1,9%                     |
| 9.       | Mikrokredit bank                     | 546                  | 2,6%                     |
| 10.      | Turon bank                           | 369                  | 1,8%                     |
| 11.      | O'zagroeksportbank                   | 76                   | 0,4%                     |
|          | <b><i>Other banks</i></b>            | <b><i>4 005</i></b>  | <b><i>19%</i></b>        |
| 12.      | O'zKDB bank                          | 528                  | 2,6%                     |
| 13.      | Hamkor bank                          | 573                  | 2,8%                     |
| 14.      | Orient Finans bank                   | 474                  | 2,3%                     |
| 15.      | Kapital bank                         | 339                  | 1,6%                     |
| 16.      | Ipakyo'li bank                       | 366                  | 1,8%                     |
| 17.      | Trast bank                           | 220                  | 1,1%                     |
| 18.      | Invest Finans bank                   | 333                  | 1,6%                     |
| 19.      | Aziya Alyans bank                    | 243                  | 1,2%                     |
| 20.      | Savdogar bank                        | 168                  | 0,8%                     |
| 21.      | Davr bank                            | 93                   | 0,4%                     |

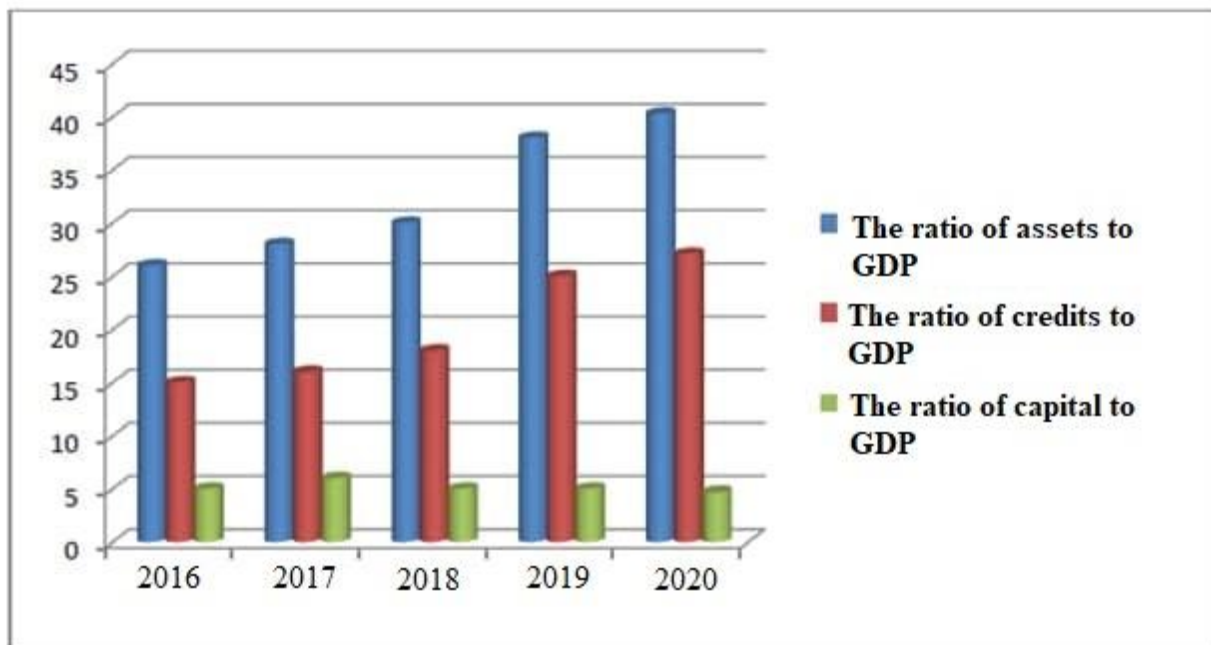
|     |                  |               |             |
|-----|------------------|---------------|-------------|
| 22. | Ziraat bank      | 216           | 1,0%        |
| 23. | Turkiston bank   | 40            | 0,2%        |
| 24. | EronSoderot bank | 273           | 1,3%        |
| 25. | Universal bank   | 34            | 0,2%        |
| 26. | Ravnaq bank      | 37            | 0,2%        |
| 27. | Xay-Tek bank     | 47            | 0,2%        |
| 28. | Madadinvest bank | 22            | 0,1%        |
|     | <b>All</b>       | <b>20 676</b> | <b>100%</b> |

From the table we can see that the total capital of commercial banks amounted to 20.7 trillion soums, of which 16.7 trillion soums or 81% fell to the share of state-owned banks. It is noteworthy that as of January 1, 2019, the number of state-owned banks amounted to 11, of which the main share of capital, ie 48.9% fell to the shares of the NBU, Asaka Bank and Uzpromstroybank. According to the data, a number of banks (Davr Bank, Turkistonbank, Universal Bank, Ravnaq Bank, Hay-Tek Bank, Madad Invest Bank) will increase their authorized capital by 100.0 billion soums by January 1, 2020. take appropriate measures,

The results of financial analysis show that in recent years, the participation of commercial banks as an active financial institution in lending to the real sector of the country, attracting investment remains one of the most pressing issues. One of the main reasons for this is that their total assets, total capital and total deposits remain very low relative to the country's GDP, as can be seen from the figure below.

Although the ratio of total assets and deposits of commercial banks to GDP in 2016 tends to increase compared to 2020, the total capital in 2020 amounted to about 4.5% of GDP.

In our opinion, such a low level of total assets, capital and deposits of commercial banks relative to the country's GDP can not only reduce their ability to lend to the real sector of the national economy, but also reduce the confidence of the population, investors, customers and other bank partners. It is usually advisable to do this by evaluating any situation or comparing it to formulate appropriate conclusions. In this regard, if we analyze the ratio of key indicators of banks to the country's GDP, the ratio of assets, loans and capital to GDP is 100-350, 80-200 and 10-12%, respectively.



**Figure 1. 2016-2020 bthe ratio of gross assets, loans and capital of banks to the country's GDP (in percent) [8].**

We know that the capital of commercial banks is formed from the funds of the bank's shareholders and other sources, the role and importance of profit in these sources play an important role, because the bank's profit is stable, relatively cheap and a source of short-term capital growth. is calculated. However, the issue of extensive use of the bank's profit potential in the formation of the capital of commercial banks of the country remains relevant, on the contrary, the share of unstable sources in some large commercial banks remains significant. In particular, the devaluation reserve is one of them.

According to the Regulations of the Central Bank on the requirements for the capital adequacy of commercial banks (UzR.AV No. 2693 of 06.07.2015), devaluation reserves are included in the fixed capital of commercial banks and is not considered a stable source. As Chris Barltrop, an expert at the World Bank for Reconstruction and Development, puts it: "Bank capital is a reliable and relatively expensive form of financing banking activities". Despite the fact that this issue is controversial among economists of our country, today it remains unresolved. Therefore, it is expedient to include the amount generated by the devaluation reserve in the balance sheet of a commercial bank in the additional capital structure.

The lack of issue income in the capital of commercial banks of the country indicates that the secondary market for 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 ranks 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.

It can be observed that the share of cash assets in the largest commercial banks of the country is significantly higher. In our opinion, this is a positive situation in terms of meeting the demand of commercial banks for cash from their customers. However, the efficiency of commercial banks is assessed as a negative situation in terms of profitability. 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 level of risk 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.

It should be noted that the adoption of the Decree of the President of the Republic of Uzbekistan dated September 2, 2017 PD-5177 "On priority measures to liberalize foreign exchange policy" provides an opportunity to address a number of problems in this area. In particular, we believe that the current attraction of cash to banks, the easing of control over the issuance of cash to customers, the almost abolition will serve to solve future problems in this area. In addition, in international banking practice, cashless settlements play an important role in increasing their profitability. In particular, the documented letter of credit is one of them, however, the level of use of this form of cashless payment in commercial banks of the country remains low.

## CONCLUSIONS AND SUGGESTIONS

Given the fact that banks in Uzbekistan are allowed to conduct operations with securities, it is expedient to require them to be active in the investment market. Large banks are cautious about investing their assets in the medium to long term, even though they have issued their own securities. Each bank could have different reserves in the Central Bank depending on its strategy and its policy on medium and long-term lending. In this regard, we believe that the Central Bank of the Republic of Uzbekistan should take a differentiated approach to setting reserve rates for commercial banks. By multiplying the reserve rate by the adjustment factor based on the share of medium and long-term loans in the bank's loan portfolio, changes can be made. Re-equipment of state-owned enterprises on the basis of new advanced technologies will be carried out within the framework of centralized public investment. Certain regulatory decisions are required for non-state actors in the economy. Given that significant technological changes are associated with higher costs for consumers of new technologies, in our view, the role of bank lending will have to be strengthened. It would be expedient to divide into innovation and investment loans with appropriate concessions on terms, volumes and interest rates of loans. Lending at reduced interest rates includes tax rates on income of commercial banks,

Based on the above analysis and research, we were able to develop the following recommendations in order to increase the importance of profits in ensuring the capital stability of banks:

- It is expedient to gradually increase the ratio of assets, deposits and capital of commercial banks to the country's GDP;
- It is expedient to increase the profitability of banks by increasing the volume of risky assets and to ensure the stability of the bank's capital at the expense of profits;
- Taking into account that the liquid assets of banks do not bring income (profit) to banks, they should be reduced to a safe level, which, in turn, will increase the ability of banks to lend to the real sector, as well as their profitability;



- In order to ensure the stability of the capital of banks, it is necessary to transfer the devaluation reserves in the composition of their sources from the structure of tier I fixed capital to tier I additional capital;

- In order to increase the profitability of banks, it is necessary to make more extensive use of effective forms of cashless payments, in particular, unsecured letters of credit, factoring.

Conclusion in other words, the role of profit in ensuring the stability of the capital of commercial banks is very important, and its increase in banks will serve to increase the investment potential of banks.

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