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INTERNATIONAL EXPERIENCE IN THE FORMATION AND MANAGEMENT OF COMMERCIAL BANKS' CAPITAL

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A B S T R A C T	K E Y W O R D S
This article examines the international experience of formation and management of commercial banks' capital on the example of several developed foreign countries. The requirements of the Basel Committee on capital formation and management are also considered. The analysis compares the practice of foreign countries in matters of formation and management of capital with the practice of the Republic of Uzbekistan. As a result, it was revealed that despite the application of the Basel Recommendations by most countries, there are still differences, which is explained by the level of development and market conditions of each country. Based on the results of studying and analyzing international experience in the formation and management of capital of commercial banks, relevant conclusions and some proposals were developed.	

Introduction

Formation and management of commercial bank capital is a key aspect for stable functioning of these organizations. Especially, the global crisis, pandemic and military operations in Ukraine were the moments in the world economy when banks faced the problem of resource scarcity. Today, many large banks, still reeling from the effects of large and unforeseen losses, are struggling to preserve and manage capital.

In particular, in Uzbekistan this issue is being considered at the state level. In his speech, the President of the Republic of Uzbekistan Sh. M. Mirziyoyev, paying special attention to the privatization of commercial banks, noted: "The focus of our attention will be the widespread introduction of digital technologies in the activities of banks. We will prepare for privatization "Sanoatkurilishbank", "Asaka Bank", "Ipoteka Bank", "Aloka Bank", "Turon Bank" and "Kishlokkurilish Bank". The state stake in at least one major bank will be fully realized to strategic investors" [3].

This suggests that there will be significant changes in the structure and composition of the capital of some commercial banks of our country, which in turn may directly or indirectly affect their financial stability. Along with this, the study and review in theory and practice of the experience of international commercial banks in the field of formation and management of capital is of great interest, as the practice of foreign commercial banks shows that they have experienced various economic crises, mergers and bankruptcies in the process of their activities as a consequence of ineffective management of their capital.

Literature Review

Theoretical, methodological and practical aspects of bank capital formation and its effective management have been studied by many foreign and domestic academic economists. However, the study revealed that there is no single view of economists and experts on the economic essence of bank capital.

For example, Professor V. M. Usoskin calls bank capital an important and integral part of the bank's financial resources [4].

O. I. Lavrushin considers bank capital as a set of funds that are created by a commercial bank to carry out its activities and ensure the confidence of depositors and other creditors [5].

American scholars Chris D.J. Burlton and Diane McHoughton believed that, bank capital along with being a sufficient reserve to prevent various contingencies arising in banking activities, also helps to eliminate insolvency arising in adapting to changing market conditions [6].

It follows that bank capital is the sum of a bank's own funds, which forms the financial basis of its activities and a source of resources. The bank's capital is designed to maintain customer confidence in the bank and to convince creditors of its financial strength. It should be large enough to provide confidence to borrowers that the bank is able to meet their credit needs even under unfavorable conditions of economic development of the country.

Thus, according to the requirement of the Basel Committee, the following sources should be included in the structure of the core capital: paid part of the authorized capital, share premium of the bank, reserve capital, retained earnings, previous years, proceeds from the sale of non-cumulative preferred shares of the bank.

The structure of additional capital of banks includes the following main elements: part of the reserve intended to cover credit losses, revaluation reserve, subordinated debt obligations, investments aimed at creating consolidated subsidiaries.

Despite the fact that most countries in the formation of capital structure rely on the recommendations of the Basel Committee, still taking into account the nature of the economy and the market environment of each country, the views of scientists slightly diverge.

For example, Associate Professor R.G. Olkhova does not include special reserves and devaluation reserve in the capital structure [5].

Uzbek scientists-economists O.O. Olimjonov and B.B. Babaev scientifically substantiated that the amount of reserve intended to cover credit risk is not included in the full amount of capital. They also did not include net profit of the current year in the capital [7].

Research Methodology

In the course of the research we have studied the procedure and peculiarities of formation, as well as capital management of commercial banks of foreign countries.

When analyzing the data obtained during the study of the experience of international banks, such methods as: comparison, induction, deduction, tabular and graphical, methods of abstract thinking and systematic approach were widely used.

Analyses and Results

One of the main questions that helps to unravel the economic essence of commercial banks' capital is the question of bank capital adequacy. If we turn to history, the assessment of bank equity capital adequacy in foreign countries begins in the 20th century. At that time, international banking practice widely used the capital adequacy ratio developed by the U.S. Federal Reserve System. According to it, this ratio is determined by dividing the total capital by the total amount of deposits, and its minimum level was 10 percent [4].

Later in 1988, under the auspices of the Basel Committee on Banking Regulation and Supervision, the Agreement on the International Harmonization of Capital Calculation was concluded, which introduced an adequacy ratio called the Cook ratio - the minimum ratio between a bank's capital and its balance sheet and off-balance sheet risk-weighted assets in accordance with the norms. Today, the total capital and core capital adequacy ratios are set at 8% and 4.5% [8].

Thus, the formula for calculating capital adequacy can be summarized as follows:

1. Total capital adequacy ratio: K1 = Total capital / TRWA
2. Core capital adequacy ratio: K2 = Tier I capital / TRWA

Where TRWA - Total risk-weighted assets.

According to the Basel, assets by risk level are grouped into 4 groups: 0 percent, 20 percent, 50 percent and 100 percent. However, 8 risk categories are used in the banking practice of our republic. As for the requirements of supervisory authorities on capital adequacy, the study revealed that in different countries this indicator may differ, but it is not lower than the ratio recommended by the Basel.

For example, the total capital adequacy ratio in the USA is 8%, in most EU countries - 8%, in Russia - 8%, in China - 6%, in Kazakhstan - 8%, in Kyrgyzstan - 12%, in Uzbekistan - 13%.

Let us consider the capital adequacy ratio of the banking system of some foreign countries for the last few years (Chart 1).

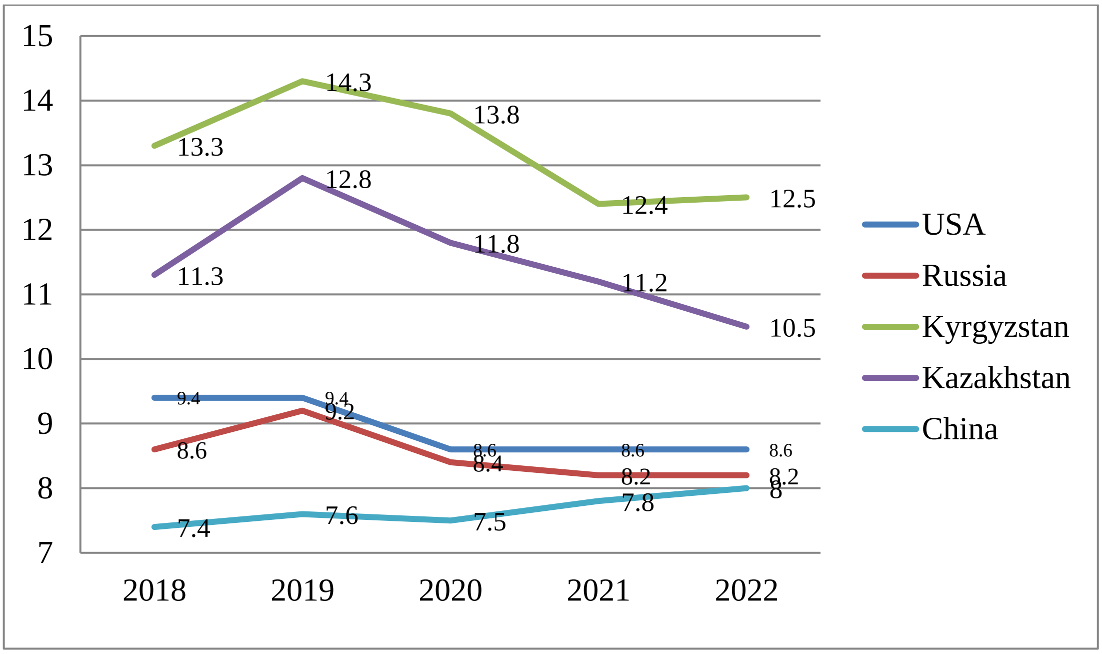

Fig. 1. The indicator of the adequacy of the total capital of some countries for 2018 – 2022 y.

Looking at the situation in the international arena, we can say that in developed economies the total capital adequacy ratio is lower compared to countries with developing economies. For example, in the USA and Russia, the capital adequacy of the banking sector fluctuates between 9% and 8%. Taking into account that the minimum value required by the supervisory authorities of these countries is 8%, it can be noted that their banks over the last 5 years have met this requirement with a slight surplus.

As for China, the regulator set the capital adequacy ratio below the Basel recommendation of 6%. However, the capital adequacy ratio of the Chinese banking system did not fall below 7.4% over the analyzed period, and in 2022 it reached 8%, which is 2% above the required minimum.

The chart shows that the indicators of Kazakhstan and Kyrgyzstan are significantly higher than those of the other analyzed countries. In Kazakhstan, there was a downward trend in the capital adequacy ratio, and it reached 10.5% in 2022. In Kyrgyzstan, this ratio has been fluctuating within 12% in recent years.

To analyze the data on capital adequacy in Uzbekistan, consider Table 1.

Table 1 Capital adequacy of the banking sector of the Republic of Uzbekistan for 2018 – 2022y.

The name of the indicator	01.01.2018y		01.01.2019y		01.01.2020y		01.01.2022y	
	billion sums	share in %	billion sums	share in %	billion sums	share in %	billion sums	share in %
1. Tier I capital	20740	91,3	25531	84,7	43659	83,2	65786	88.4
1.1Common equity	20693	91,1	25493	84,6	43622	83,1	65590	88.1
1.2 Added capital	48	0,2	38	0,1	38	0,1	195	0.3
2. Tier II capital	1985	8,7	4614	15,3	8808	16,8	8633	11,6
Total capital	22725	100	30145	100	52467	100	74419	100
Capital adequacy ratio	18,2%		15,6%		23,5%		17,6%	
Tier I Capital adequacy ratio	16,6%		13,2%		19,6%		15,6%	

The table shows that in our country the capital adequacy ratio in 2022 amounted to 17.6%, which is significantly higher than the requirements of the supervisory authority (13%) and almost twice exceeds the Basel recommendations (8%). If we compare this indicator with the indicators of neighboring countries - Kazakhstan and Kyrgyzstan - we see that the banks of Uzbekistan exceed the capital adequacy requirement by 5.1% compared to the Republic of Kyrgyzstan, and 7.1% compared to the Republic of Kazakhstan.

It should be noted that while on the one hand a high capital adequacy ratio shows the reliability of a bank, on the other hand it is an indicator that banks do not use their capital to the fullest extent. Consequently, banks do not perform a sufficient volume of active operations, which, in principle, would allow the volume of their capital. Thus, we conclude that banks in Uzbekistan do not use their full potential in performing active operations, maintaining a high level of capital adequacy.

Conclusions and Proposals

Based on the results of the analysis of the topic under study, the following conclusions can be drawn:
In conditions of instability of the world economy, increasing frequency of regional financial crises and intensifying competition in the world markets, prevention of bankruptcy in the banking sector and ensuring the safety of the banking system are of crucial importance and require systemic and coordinated actions.

All commercial banks currently operating in the market use the recommendations of the Basel Committee, which defines capital adequacy as the ratio of capital to risk-weighted assets.

However, based on economic, political and other factors in a country, there are differences in the grouping of assets by risk, as well as in the minimum capital requirement. For example, Basel recommends maintaining a core capital adequacy ratio of at least 8%, while in China the ratio is 6%, in many EU countries 8%, in Kyrgyzstan 12%, and in Uzbekistan 13%.

For commercial banks of the Republic of Uzbekistan, the issue of increasing the volume of own capital also does not lose its relevance. Despite the fact that today measures are taken to increase the level of capitalization of commercial banks, the total amount of banks' own capital is still inferior in comparison with other countries.

Theoretical and practical results of the analysis and assessment of international experience in the issues of formation and management of capital adequacy of commercial banks served to form the following proposals:

1. Theoretical and practical aspects of bank capital adequacy and its provision have been studied by many foreign and domestic academic economists. However, the study revealed that there is no unified view of economists and experts on the economic essence of bank capital. Therefore, it is necessary to continue to carry out relevant scientific research in this area.
2. Taking into account that the capital adequacy norm of commercial banks today twice exceeds the established norms by the Central Bank, it is recommended to increase the share of income-generating assets of the bank, especially the volume of investments in the real sector of the economy.

These conclusions and recommendations, in our opinion, will ensure financial stability and sustainability of the banking system, as well as enable our domestic banks to take a worthy place among the leading banks of developed countries.

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