

# THE ROLE OF CAPITAL IN STRENGTHENING THE RESOURCE BASE OF BANKS

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## Abstract

In today’s financial markets, where competition is intensifying, ensuring the sustainable operation of commercial banks, especially private banks, is of paramount importance. Private banks are among the key institutions stimulating economic growth by supporting investment processes in the national economy, attracting the idle funds of the population and business entities, and directing them efficiently.

## Introduction

In the process of strengthening the resource base of banks, capital plays a special role. Capital is the main guarantee of a bank’s stability: it not only strengthens the financial condition of the bank but also increases its credibility in the eyes of customers and investors. Therefore, the adequate formation and effective management of capital are of strategic importance for private banks.

According to international standards, including the requirements of Basel III and Basel IV, bank capital not only performs a protective function but also serves as the main factor ensuring financial stability, liquidity, and competitiveness. From this perspective, studying the role of capital in forming and strengthening the resource base of private banks is highly relevant today.

The implementation of e-government elements and the support of the digital economy have taken a strong place in Uzbekistan’s near-term development agenda. This primarily concerns the tasks of increasing the share of electronic document exchange and gradually transferring certain parts of public services to electronic form through Public Service Centers. In this process, telecommunications infrastructure plays a vital role. Modern technologies and platforms have helped enterprises and individuals reduce costs by minimizing direct interaction with clients, partners, and state institutions, while also enabling faster and easier communication. As a result, a digital or electronic economy has emerged, based on network resources.

The term “*digitalization*” itself is relatively new and refers to the introduction of IT solutions into innovative management and workflow processes, implying the application of information technologies in all systems ranging from the Internet of Things to e-government. The main source of the digital segment of the economy is the growing transactional sector, the core of which is the banking system. Therefore, in the digital economy era, it is impossible to imagine the national economy and its development without banks. Consequently, the operational freedom of banks, their competitiveness, and most importantly, a strong capital base are of crucial significance. Bank capital constitutes the initial financial foundation of banking activity and later ensures its development, sustainability, and security.



In the context of the digital economy, when discussing bank capital, the concept of the “*capitalization level of banks*” is often emphasized. As a macroeconomic factor, bank capital has a direct impact on maintaining liquidity and strengthening solvency.

From the very beginning of the establishment of commercial banks in our country, great attention was paid to bank capital as the main financial source. This approach remains economically relevant today, as the role of banks in people’s lives is steadily expanding. In this regard, the President of our country has emphasized: “*Banks must now teach our people entrepreneurship and guide them towards business activity.*” For this purpose, banks are required to be financially strong and possess a solid capital base.

Thus, the existence of bank capital is one of the most essential prerequisites for the creation of a bank and the continuation of its operations. Bank capital is reflected on the liabilities side of the bank’s balance sheet. It is given special importance since it serves as an important insurance fund covering claims in the event of bankruptcy and as a source of financing for the development of banking operations.

Under market economy conditions, bank capital can be divided into two major groups: banks’ own funds and borrowed funds. These resources are used in carrying out active banking operations, that is, they are allocated across various sectors for the purpose of generating income.

Therefore, the nature of bank capital, the process of increasing it, and the reform of capitalization remain among the most crucial aspects of organizing and managing banking activities.

In our view, before discussing the economic essence of raising the capitalization level of private banks, it is very important to define the concept of a “*private bank.*” A private bank is a bank established by an individual or a limited group of partners. In the practice of Uzbekistan’s banking system, private banks are those in which the share of founders (participants) who are natural persons constitutes at least 50 percent of the charter fund (charter capital). Such banks may also include other credit institutions, insurance organizations, and other legal entities that provide only financial services. These banks are not formed as corporations. The history of such banks traces back to Switzerland and the United Kingdom.

Looking back at history, there were many private banks in Europe, but the majority of them were transformed into corporations, which is why this term has gradually lost its relevance. Today, the concept of a “*private bank*” generally refers to financial institutions that specialize in providing financial advice and services to high-net-worth individuals (HNWI), also known as *private banking*. Private banking refers to the provision of investment and other financial services by banks to individuals who invest large amounts of assets. Private banking as a method of organizing banking activity originated in Venice, where the first banks were based on managing the personal finances of wealthy families. Historically, private banks developed in Europe. In some cases, they were engaged in managing the assets of royal families. For example, the assets of the Princely Family of Liechtenstein have been managed by **LGT Group** (founded in 1920), while the assets of the British Royal Family have been managed by **Coutts**.

One of the key factors ensuring the financial stability of banks is their ability to maintain sustainable and sufficient financial resources. A strong and stable resource base of private banks is one of the main factors determining their profitability, as well as the quality and scale of their active operations. As is well known, with the development of the economy and the growth of industries, the demand for



banking services also increases. Based on this, banks use both their own funds and borrowed funds to meet this growing demand. Since the ability to continuously expand their own funds is limited, banks rely primarily on borrowed funds, which serve as their main financial resource.

Controlling the terms, volumes, and quality of borrowed funds allows banks to determine their current and strategic plans, as well as to monitor liquidity, solvency, and financial stability indicators.

In most countries of the world, including the Republic of Uzbekistan, mandatory requirements have been established regarding the minimum amount of the charter capital of banks.

**Table 1. Minimum Charter Capital Requirements for Commercial Banks Operating in the Republic of Uzbekistan 1**

Years	For Joint-Stock Commercial Banks	For Banks Established with the Participation of Foreign Capital	For Private Banks
January 1, 1998	1.5 million USD equivalent in soums	5.0 million USD equivalent in soums	0.3 million USD equivalent in soums
January 1, 1999	2.0 million USD equivalent in soums	5.0 million USD equivalent in soums	0.3 million USD equivalent in soums
January 1, 2000	2.5 million USD equivalent in soums	5.0 million USD equivalent in soums	0.3 million USD equivalent in soums
January 1, 2002	2.5 million USD equivalent in soums	5.0 million USD equivalent in soums	1.25 million USD equivalent in soums
January 1, 2005	5.0 million USD equivalent in soums	5.0 million USdollars equivalent in soums	2.5 million USD equivalent in soums
January 1, 2008	5.0 million EUR equivalent in soums	EUR 5.0 Million (equivalent in UZS)	2.5 million euros equivalent in soums
January 1, 2009	5.0 million EUR equivalent in soums	10.0 million euros equivalent in soums	5.0 million euros equivalent in soums
October 1, 2017	100 billion soums		
September 1, 2023	200 billion soums		
April 1, 2023	350 billion soums		
January 1, 2025	500 billion soums		

1 Compiled by the author on the basis of internet sources



As can be seen from this table, the required amount for commercial banks has been increasing year by year. Table 2, in turn, presents the level of capital adequacy of the banking system as of August 2023, 2024, and 2025. From the table data, it can be observed that the share of Tier 1 capital is significantly higher compared to Tier 2 capital.

Table 2. Capital Adequacy Level of the Banking System 2

Name of Indicators	01.08.2023 y.		01.08.2024 y.		01.08.2025 y.	
	UZS bln	Share, %	UZS bln	Share, %	UZS bln	Share, %
Tier 1 Capital	76 542	83,5%	95 055	81,3%	117 327	83,6%
Core Capital	76 497	83,5%	94 885	81,2%	117 070	83,4%
Supplementary Capital	45	0,05%	170	0,15%	256	0,18%
Tier 2 Capital	15 124	16,5%	221 855	18,7%	22 979	16,4%
Total Regulatory Capital	91 666	100%	116 910	100%	140 305	100%
Capital Adequacy Ratio (CAR)	15,9%		17,1%		17,5%	
Tier 1 Capital Adequacy Ratio (Tier 1 CAR)	13,3%		13,9%		14,6%	

Tier 1 capital accounts for 83.6 percent, while Tier 2 capital makes up 16.4 percent. Table 3 presents the consolidated balance sheet of commercial banks as of August 2023, 2024, and 2025. It includes deposits, the Central Bank's correspondent account, funds of other resident banks, funds of other non-resident banks, loans received and leasing operations, issued securities, subordinated loans, accrued interest payable, other liabilities, total liabilities, as well as total capital consisting of charter capital, additional capital, reserve capital, and retained earnings.

Table 3. Consolidated Balance Sheet of Commercial Banks 3

Name of Indicators	01.08.2023 y.		01.08.2024 y.		01.08.2025 y.		Change, %
	UZS bln	Share, %	UZS bln	Share, %	UZS bln	Share, %	
Liabilities							
Deposits	220 481	42,0%	275 422	45,5%	360 402	49,7%	31%
Central Bank Correspondent Account	1 874	0,4%	1 517	0,3%	1 227	0,2%	-19%
Other Banks' Funds – Resident	28 079	5,4%	29 860	4,9%	32 543	4,5%	9%
Other Banks' Funds – Non-Resident	21 681	4,1%	16 533	2,7%	15 384	2,1%	-7%

2 www.cbu .uz – Central Bank of the Republic of Uzbekistan website

3 www.cbu .uz – Central Bank of the Republic of Uzbekistan website

Borrowed Loans and Leasing	213 144	40,6%	223 743	36,9%	245 846	33,9%	10%
Issued Securities	12 908	2,46%	23 537	3,88%	32 891	4,5%	40%
Subordinated Loans	8 749	1,7%	13 899	2,3%	12 844	1,8%	-8%
Accrued Interest	7 416	1,4%	8 202	1,4%	8 185	1,1%	0%
Other Liabilities	10 179	1,9%	13 235	2,2%	16 100	2,2%	22%
Total Liabilities	524 511	100%	605 948	100%	725 422	100%	20%
Total Capital							
Charter Capital	63 033	72,5%	72 990	68,8%	90 516	71,3%	16%
Additional Capital	1 039	1,2%	1 402	1,3%	1 464	1,2%	35%
Reserve Capita	10 000	11,5%	12 296	11,6%	13 629	10,7	23%
Retained Earnings	12 824	14,8%	19 409	18,3%	21 350	16,8%	51%
Total Capital	86 896	100%	105 162	100%	126 959	100%	21%

Based on the above-mentioned circumstances, we will discuss in detail the main directions for increasing the capitalization level of private banks. The key measures include the following:

- Commercial banks need to make full use of opportunities to increase their additional capital base.
- Private banks should continuously raise their capitalization level by issuing ordinary shares on a regular basis.
- To strengthen the resource base of private banks, it is necessary to expand long-term subordinated loan obligations, which are one of the main sources for increasing additional capital.
- The share of additional capital in the private capital structure of private banks should be increased.
- Private banks should establish more subsidiary enterprises such as leasing, trust, factoring, forfeiting, and insurance companies.
- Commercial banks need to form sources for contributions made to consolidated subsidiaries within the additional capital structure.
- Commercial banks should issue long-term mortgage-backed securities into circulation.
- Ensure the stability and competitiveness of the national economy, as well as strengthen the purchasing power of the national currency.
- Private banks should provide information to the public about the sale of their shares and dividend payments.
- Private banks should ensure widespread trading of ordinary and preferred shares on the secondary securities market.

In conclusion, the opportunities for enhancing the capital stability of commercial banks in our country are multifaceted, and effective utilization of these opportunities is of great importance.

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