"ANALYSIS OF CAPITAL ADEQUACY INDICATORS IN THE BANKING SYSTEM (ON THE EXAMPLE OF BANKS IN UZBEKISTAN)"

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Annotation *This scientific thesis investigates the capital adequacy in commercial banks operating in the Republic of Uzbekistan. It analyzes the changes in the minimum capital requirements and provides practical data evaluations. Conclusions are drawn regarding the factors influencing the liquidity coverage norms in the banking system. Furthermore, scientific proposals aimed at improving the efficiency of bank capital management have been developed.*

Keywords: *capital, coverage norms, commercial banks, financial stability, active operations, passive operations, national economy, investment, regulator, interest rate.*

The development and globalization of Uzbekistan's economy necessitate the implementation of new strategies and transformation methods in the banking sector. Transformation processes are of critical importance for improving banking operations, increasing competitiveness, and providing efficient services to customers. Today, banks are actively working on modernizing their activities, introducing digital technologies, and adopting new approaches to customer service. These processes require a reconsideration of internal structures, service mechanisms, and business models.

The capital adequacy ratio in the banking system remained relatively high at the end of 2024 compared to previous months, which is related to changes in the methodology for calculating capital adequacy. In 2023, commercial banks allocated loans totaling 251 trillion soums to meet the credit demand of the economy and support entrepreneurship, which is 24% more than in 2022. Of these loans, 60% were allocated to business entities and 40% to the general population.

The continuous improvement of corporate governance in commercial banks, the entry of foreign digital banks into the national banking market, and the expansion of remote customer service contribute to the growth of credit volumes based on market principles. In 2023, the total capital of banks increased by 22%, reaching 97 trillion soums by year-end. The authorized capital rose by 15% to nearly 69 trillion soums. Additionally, by the end of 2023, the regulatory capital of the banking system amounted to 106 trillion soums, risk-weighted assets totaled 604 trillion soums, and the capital adequacy ratio stood at 17.5% (the minimum requirement being 13%) (see Figure 1).

The higher capital adequacy ratio at the end of the year compared to other months is attributed to the changes in the calculation methodology. In 2023, the volume of high-liquidity assets decreased by 7.6 trillion soums or 7%, amounting to 97 trillion soums. Specifically, assets in national currency fell by 4.5 trillion soums, while assets in foreign currency decreased by 3.1 trillion soums, totaling 46.5 trillion and 50.4 trillion soums, respectively.

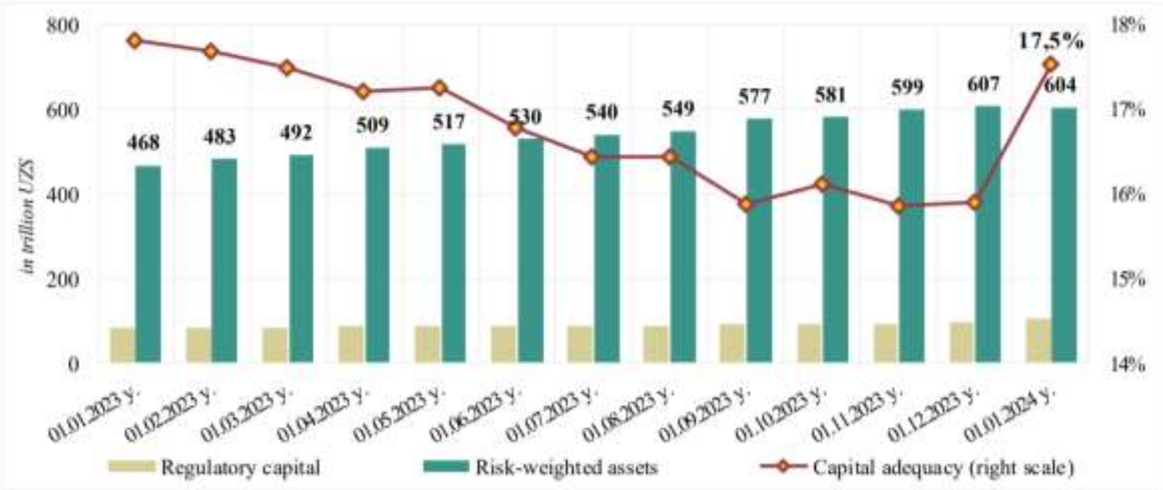

Figure 1. Dynamics of the capital adequacy ratio[23]

Although the liquidity coverage ratio (short-term liquidity) in the banking system declined from 212% to 165% over the year (with a minimum requirement of 100%), banks remained capable of fully meeting their obligations to clients over the following 30 days even in the event of unexpected stress scenarios. The long-term liquidity indicator of the banking system — the Net Stable Funding Ratio (NSFR) — decreased by 4 percentage points from 116% at the beginning of 2023 to 112%. This indicator stood at 112% in both national and foreign currencies.

In 2023, the total assets of banks increased by 95 trillion soums or 17.1%, reaching 652 trillion soums as of January 1, 2024. Of these assets, 70.2% consisted of outstanding loans, 8.2% were funds held in other banks, 5.1% were held with the Central Bank, 5% were investments and purchased securities, 3.1% were cash, 3% were fixed assets, 3% accounted for accrued interest, and 2.4% were other private assets and properties.

In 2023, commercial banks allocated a total of 251 trillion soums in loans to meet credit demand in the economy and to provide financial support to business entities — 24% more than in 2022. Of these loans, 60% were directed toward business entities, and 40% were issued to the general population. Notably, the share of loans disbursed by private banks in the total amount of loans increased from 31% to 43%, while the share of loans issued to corporate clients rose from 25% to 34%.

Furthermore, during 2023, revolving credit lines totaling 57 trillion soums were allocated to ensure the continuity of entrepreneurial activities and to replenish working capital. The rate of loan repayment into the banking turnover increased by 7 percentage points compared to the end of 2022, reaching 74% by the end of the reporting year. This served as a key source of economic financing amid rising costs of external funding. As a result, the volume of outstanding loans increased by 21%, or 81 trillion soums, compared to the beginning of 2023, amounting to 471 trillion soums as of January 1, 2024.

[23] https://cbu.uz/upload/medialibrary

Table 1.
Capital adequacy indicators of the banking system of the Republic of Uzbekistan[24]

№	Indicators	01.01.2023 y.		01.01.2024 y.	
		billion soum	share, in %	billion soum	share, in %
1.	Regulatory Tier I capital	67793,5	81,3	84910,8	80,2
2.	Main capital stock	67598,1	81,0	84865,9	80,1
3.	Capital surplus	195,4	0,2	44,9	0,0
4.	Regulatory Tier II capital	15619,6	18,7	21003,7	19,8
5.	Total regulatory capital	83413,0	100,0	105914,5	100,0
6.	Capital adequacy ratio, in %	17,8		17,5	
7.	Tier I capital adequacy ratio, in %	14,5		14,1	

The introduction of innovative services and technologies in commercial banks requires a comprehensive approach and specific methods to successfully implement the transformation process. In other words, transforming banks necessitates the development of a clear strategy, the identification of goals, priorities, and action plans for innovation. It is crucial to consider the following during the transformation process:

- Collaborating with fintech companies and startups to introduce new technologies and services;
- Conducting training programs and educational courses for employees on new technologies and work methods;
- Using data analysis to study customer needs and collecting feedback to continuously improve product innovation.

These methods serve to help banks successfully implement innovative services and technologies, enhance customer experience, optimize business processes, and further strengthen their competitiveness in the financial market.

[24] https://cbu.uz/upload/medialibrary/a53/wn6gcejpkxphv2v4guajin4x01h7iyxa/Yillik-hisobot-2024.pdf

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