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Distinctive Peculiarities And Factors Influencing The Process Of Implementation Of International Requirements In The Management Of Banks Of The Republic Of Uzbekistan

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Abstract: Identification of specific features and factors affecting the implementation of international requirements and standards in the management of assets and liabilities of commercial banks and the prospects for the development of banking and financial services.

Keywords: commercial bank, risk, international requirements and standards of the Basel Committee, conservation buffer capital, countercyclical buffer capital.

Introduction:

Nowadays, at the stage of developing countries' economic development, the problems of managing assets and liabilities of commercial banks with due regard for international requirements and standards are growing. Efficient implementation of these international indicators is possible when defining and taking into account specific features of the state of banking activity and factors affecting the said process. The liberalization of the economy as a whole, and in particular in the banking sector, is being gradually introduced in the Republic of Uzbekistan. The urgency of this problem is puzzled in the Resolution of the President of the Republic of Uzbekistan "On measures for further development and increase of stability of the national banking system"[1].

Literature analysis on the topic:

The management problems of assets and liabilities of commercial banks of the Republic of Uzbekistan are investigated in the monographs of A. A. Amonov [2] and

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S. Abdullaeva. A. [3]. However, these researches were conducted before the transition of the Uzbek economy under conditions of liberation (September 2017) [1]. **Therefore, these studies could not take into account new phenomena and trends in the development of the country's economy, especially in the banking sector**, namely, the specific features and factors affecting the process of implementation of international requirements and standards in the management of assets and liabilities of commercial banks of the Republic of Uzbekistan and the prospects of banking and financial services.

Research methods:

The following methods of analysis, comparative method, normative methods, average number methods, index methods, inductive and deductive methods, abstraction methods and specifics were used in the presentation of this article.

Analysis and results:

Infrastructure systems serving the subjects of market relations can be divided into the following groups: production infrastructure; trade and service infrastructure; services provided by banking and financial infrastructures; infrastructure for social services; information technology and communication infrastructure services.

During the past five years, the infrastructure of financial services of the Republic of Uzbekistan, as well as the banking sector, has changed significantly following international requirements and standards and their role in the economy has increased significantly. The Government is gradually introducing innovative methods of global rating in the banking sector of Uzbekistan and this process has its peculiarities and specific factors influencing this process.

Commercial banks have their specifics in asset, liability and supervision management developed by the Basel Committee in 1988 and introduced in practice step by step since 1993. (In 1974, the "Basel Committee on Banking Supervision" was established in the Swiss state of Basel at the "International Settlement Bank".)

According to the International Standard (Basel I), commercial bank capital is divided into two parts: Tier I capital (fixed capital) and Tier II capital (additional capital). The objectives of these indicators are to assess capital adequacy and manifests itself in the following: a reflection of the real level of capital; limits the increase in the volume of credit with a minimum level of capital; makes it possible to take into account the level of risk of off-balance operations.

The deficiency of the Basel I capital adequacy ratio is that it is focused exclusively on credit risk, assets are not sufficiently differentiated by the level of risks (market risk is not taken into account) and requirements to create reserves for certain types of risk operations are underestimated [6].

The Basel Committee amended the capital adequacy requirements for commercial banks in July 1997 to assess capital adequacy and market risks in the management of assets and liabilities of commercial banks, and in 2000 began implementing a new agreement (Basel II) based on targets. Basel II requirements apply to the following types of risks: interest rate risks, risks associated with the trading portfolio (securities); currency risk; commodity risks arising from the purchase and sale of precious metals.

The world economic and financial crisis that began in 2008 forced the Basel Committee to tighten its requirements to bank capital. As a result, a new agreement known as **Basel III** was developed and came into force on September 15, 2010. The new agreement does not abolish Basel II but complements it.

The fundamental requirements and features of Basel III used in the management of assets and liabilities of commercial banks are as follows: commercial banks that **do not comply with the new requirements of the Committee**, will have to reduce the amount of bonuses and dividends; **increased requirements to the level of share capital**, if these requirements were 2% of the amount of assets calculated by taking into account the risks before payment of taxes, then this indicator is set at 4.5% of the specified amount of assets after payment of taxes**; increased minimum requirements** to the level of capital adequacy, minimum requirements for Tier I capital adequacy have been increased, which has been increased from the current 4.5% to 6% for the period from 2013 to 2019; **protective "conservation buffer" of capital has been introduced**, which consists of an additional reserve equal to 2.5% of Tier I capital, the total requirement for Tier I capital for the period 2015-2019 was (4.5% + 2.5%) 7%; **a counter-cyclical capital buffer" indicator has been introduced**, which is estimated at 0-2.5% of the bank's Tier 1 capital and contributes to a sharp reduction in the volume of credit; in the period 2013-2017, a ratio of equity to attracted capital has been introduced, which is introduced in order to determine the risk level, which is **3% of Tier 1 capital[7].**

The following factors may affect the process of implementing the international requirement and **Basel III** standards in the management of assets and liabilities of commercial banks in Uzbekistan.

The first factor. Implementation of international requirement and Basel III standards started two years later, namely from January 1, 2015 than in European banks from January 1 2013. The basis for this is the decision of the President of Uzbekistan [4]. According to this document, in 2011-2015, it was necessary to pass a preparatory stage of transition of commercial banks to international requirements of Basel III.

The second factor. **According to the decision of the Government of Uzbekistan**, commercial banks were to increase their charter capital by 20% annually. Commercial banks realized this task through the following sources: by recapitalization of the bank's shareholders; by selling issued shares of commercial banks at the Republican Stock Exchange. The attractiveness of these issued bank shares is that their dividend rate (25-30%) is higher than the average percentage of short-term deposits (18-19%) of banks.

The level of capital adequacy in commercial banks of Uzbekistan is almost three times higher (23%) than the established international norm (8%), which, taking into account several other factors, provided Uzbekistan with a stable sovereign rating in December 2018 [8].

The third factor. Based on the recommendations of the Basel Committee, the calculation of regulatory capital adequacy ratio was introduced in 2004 with the addition of a market risk indicator to Basel I requirements.

In the meantime, the Central Bank of the Republic of Uzbekistan has additionally increased the level of regulatory capital adequacy (interest rate and investment risks were not taken into account) and set the minimum **capital adequacy ratio at 10% instead of the established international level of 8%** and gradually increased this ratio to 14.5% (as at January 1 2019).

The fourth factor. Based on Basel III requirements, the Central Bank of Uzbekistan has calculated operational and credit risks in addition to the capital adequacy ratio for commercial banks. F**rom market risk, only currency risk was taken into account in the calculations (interest rate risk and investment risk were not taken into account in the calculations)**. For commercial banks of Uzbekistan, these risk coefficients have not been introduced, **as a securities market and interest rate market in Uzbekistan are not developed under international requirements**. In 2018 the volume of securities in Uzbekistan made up 1.3% of the gross domestic product. For Europe, this figure is 50-60 per cent. Out of 27 trillion loans issued in Uzbekistan in 2018, only 21 percent of the volume of loans were issued freely by commercial banks, the remaining 79 percent of the volume of loans were issued in accordance with the decisions of the Government of Uzbekistan[5].

One of the Basel III requirements is equity capital adequacy. The target of this normative indicator is as follows. A commercial bank should increase its own capital not by raising interest rates, but by increasing its own capital.

The Basel Committee increased the equity capital adequacy ratio from 2 to 4.5% based on the above approach **plus added a 2.5% ratio as a reserve "conservation buffer" of capital**. Thus, the bank's capital adequacy ratio was set at 7%.

The fifth factor. Tier I capital adequacy level for commercial banks in accordance with the Basel requirements was set at 4.5% of risk-adjusted assets.

The Central Bank of Uzbekistan has set this indicator for commercial banks at 5%. **Protective "buffer conservation" of capital is set at 2.5% of Tier I** capital as an additional reserve. Thus, the Central Bank of Uzbekistan from January 1, 2015 for commercial banks has established the given indicator at level **(5+2,5 %) 7,5 percent** and stage by stage brought it as of January 1, 2019 at level of 11 percent.

The Basel III requirements were adopted in September 2010. Starting from January 1, 2013 commercial banks started to gradually move to these requirements. On January 1, 2019 full transition to international requirements was ensured, the transition period was 6 years. Central Bank of Uzbekistan was given three years for the full transition of commercial banks to these requirements, namely, the transition started from January 1, 2015, and all commercial banks of Uzbekistan were fully transferred to these international requirements on January 1 2019.

The sixth factor. The capital adequacy of a bank depends on an assessment of the bank's risk profile and additional provisions need to be made for these risks. This approach has led to the inclusion of additional reserves in the bank's capital adequacy

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ratio so that the bank does not aim to derive more profit from its customers with low creditworthiness.

On the part of the Central Bank of Uzbekistan, the regulatory capital adequacy ratio and additional reserves for commercial banks were set at **(8%+2.5% =) 10.5% from January 1 2015, -11.5% from January 1 2016, 12.5% from January 1 2017, 13.5% from January 1, 2018, and 14.5% from January 1 2019. [9].**

The Basel Committee's central banks have started to transfer their commercial banks to the capital adequacy ratio, subject to additional reserves, which was set at 10.5 per cent for them at the international level since January 1 2019.

The seventh factor. The Central Bank of Uzbekistan started to gradually increase the **liquidity coverage ratio (LCR)** for commercial banks from 2016 and from January 1, 2018, set the basic level of liquidity coverage (LCR) at 100%, and from January 1, 2018, introduced the **net funding stable ratio (NFSR)** at 100%.

The reason commercial banks are switching to these international requirements and Basel III standards is that with an equal level of capital adequacy ratio banks did not aim to receive large profits from their customers with low creditworthiness. Therefore, additional reserves were added to the capital adequacy ratio taking into account operational and market risks along with credit risk.

Thus, the introduction of high international requirements and standards in commercial banks will contribute to the sustainable growth of banking services, achieving efficiency, security and attractiveness in banking activities.

Conclusions and proposals.

In Uzbekistan, the market of interest rates and securities is not developed, therefore at calculations of the sufficiency of regulatory capital of commercial banks the risks of the markets of interest rates and securities market risk are not considered international indicators. Since September 2017 due to liberalization of Uzbekistan's

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economy, it is necessary to take into account the risk of interest rates and securities markets when calculating the capital adequacy of commercial banks, which will lead to the reduction of banking risks and financial stability of banks, as well as will contribute to the entry of commercial banks of Uzbekistan to the international financial market and solving the problem of liquidity of these banks in conditions of investment activity in the country's economy.

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