

Stability of the Banking System

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Abstract

Ensuring the stability of the banking system, being an important factor in ensuring their solvency, is a necessary condition for ensuring the continuity of payments made in the country's economy. Therefore, ensuring the stability of the banking system is one of the main tasks of banking supervision. The article identifies urgent problems related to ensuring the stability of the banking system of the Republic of Uzbekistan and develops scientific proposals aimed at solving them.

Key words: Central bank, monetary policy, commercial banks, credit, deposit, financial stability, problem loans.

Introduction

Today, a number of works are being carried out in our country to improve the efficiency of the banking system, which are set out in the Decree of the President of the Republic of Uzbekistan No. PF-60 dated January 28, 2022 "On the Development Strategy of New Uzbekistan for 2022-2026" [1]. In particular, issues such as "ensuring that the growth rate of credit investments in the economy (16 - 18 percent) is commensurate with the growth rate of the nominal volume of gross domestic product, in particular, attracting foreign bank loans worth \$ 486.0 million within the framework of 13 investment projects by the end of 2022" are raised [2].

Therefore, ensuring the stability of the banking system is one of the main objects of prudential banking supervision. In any economy where market mechanisms are introduced, the activities and financial stability of commercial banks are controlled and regulated by the country's Central Bank. At the same time, in some developed countries, independent mega-regulators are engaged in the implementation of appropriate control over the activities of banks, strengthening their

solvency and regulating them[3].

Of course, in foreign countries, the Central Bank and mega-regulators have extensive experience and positive results in ensuring the financial stability of banks and strengthening their solvency. However, as a result of the increasing globalization of the world economy and the deepening division of labor between countries, financial and economic crises of various degrees cannot but affect the financial stability and solvency of foreign banks. In particular, this can be observed in the socio-economic processes and conflict situations that arose as a result of the global financial and economic crisis in the United States in recent years[4].

The ultimate goal of any state in the economic sphere is to ensure sustainable economic growth, high employment, and stable domestic prices. This goal is achieved through the development and implementation of economic policy. Monetary policy, budget policy, price policy, wage and employment policy are important components of economic policy[5].

Banking activities are strictly regulated and supervised in all countries. After all, banks actively participate in the country's financial system by mobilizing capital and providing loans. And, of course, the main goal of supervision is to protect the interests of the country, as well as its population[6].

Literature analysis

In any economy where market mechanisms are introduced, the activities and financial stability of commercial banks are controlled and regulated by the Central Bank of the country. At the same time, in some developed countries, independent mega-regulators are engaged in the implementation of appropriate control over the activities of banks, strengthening their solvency and regulating them.

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a strong position in the market in the event of any difficult, large losses[8].

V.G. Artemenko in his scientific works associates stability with solvency and provides for an assessment of their financial stability based on absolute and several indicators. He puts forward the conclusions that solvency is the timely fulfillment of payment obligations by economic entities, as well as financial stability is assessed based on cash flow analysis [9]. At the same time, it seems that there is no connection between the stability of banks and their reliability in this system of indicators.

O.V. Efimova recommends in her research that it is necessary to use another system of indicators of financial stability. According to the scientist, this generalized system of indicators should include the return on capital indicator, which comprehensively indicates the growth of banks' capital, and the share of capital in the volume of gross liabilities as a second indicator, as well as the structure of assets, capital turnover, profitability, fixed and variable costs when assessing financial stability [10].

It should be noted that, using the above-mentioned system of indicators, we believe that it is possible to assess the financial stability of banks through the level of capital adequacy and profitability, the share of capital in assets.

Although the scientists studied in the above studies did not distinguish reliability with separate indicators in their studies, they conclude that it is interconnected with the financial stability indicator.

In our opinion, it is appropriate to assess the financial stability of commercial banks through a system of indicators of capital adequacy, its profitability and ratio to assets, as well as liquidity, solvency, profitability and reliability, which have a positive effect on financial stability.

One of the urgent issues is the study of the methodology of ensuring the financial stability of commercial banks by international financial organizations and the formulation of relevant conclusions from these methodologies. Therefore, we will first consider the indicators recommended by the International Monetary Fund and their significant aspects. The International Monetary Fund publishes Financial Soundness Indicators that are both core and advisory. Twelve of the financial soundness indicators are core indicators, while 26 are advisory. The core financial soundness indicators include indicators such as capital adequacy ratios, asset quality, profitability, liquidity, and market risk sensitivity, while advisory indicators cover banks, other financial institutions, corporate companies, households, market liquidity, and the real estate market [11].

Research methodology

In the process of preparing the scientific article, comparative analysis of data based on tables, data grouping, statistical grouping based on abstract-logical thinking, systematic analysis, induction and deduction, and expert evaluation methods were also effectively used.

Research results

Systematic work was also continued in the direction of ensuring the stability of the banking system, which was established as one of the main goals of the Central Bank. In this direction, the main attention was paid to meeting the economy's demand for financial resources within the framework of real growth rates and ensuring that financial stability indicators in the banking system were at an acceptable level.

It should be noted that maintaining high lending growth rates, while supporting economic growth, also leads to an increase in problem loans in the banking system.

Currently, three banks in our country provide preferential loans: Xalq Bank, Mikrocredit Bank and Agrobank.

Table 1. Problem loans (NPL) of commercial banks [12], billion soums.

| Date | Credits | | | Problem loans (NPL) | | |
|------------|----------|-------------------|-------------|---------------------|-------------------|-------------|
| | Total | from which: | | Total | from which: | |
| | | state-owned banks | Other banks | | state-owned banks | other banks |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 01.01.2021 | 276 | 244 | 32 | 5 | 5 | 617,2 |
| 1 | 974,8 | 483,9 | 490,9 | 784,8 | 167,6 | |
| 01.01.2022 | 326 | 280 | 46 | 16 | 15 | 1 |
| 2 | 385,6 | 073,6 | 311,9 | 974,0 | 068,8 | 905,2 |
| 01.01.2023 | 390 049, | 324 | 65 | 13 | 12 | 1 |
| 3 | 9 | 680,7 | 368,1 | 992,3 | 643,3 | 349,0 |
| 01.01.2024 | 471 | 333 | 138 | 16 | 13 | 3 |
| 4 | 405,5 | 298,0 | 107,4 | 621,3 | 267,1 | 354,2 |
| 01.01.2025 | 595 309 | 401 86 | 193 44 | 20 54 | 14 582 | 5 964 |
| 5 | | 3 | 6 | 5 | | |
| 01.01.2026 | 604 002 | 404 46 | 199 53 | 18 05 | 12 834 | 5 221 |
| 6 | | 9 | 3 | 5 | | |

In this regard, banks and the government are taking appropriate measures to prevent the negative impact of problem loans in the banking system's loan portfolio on the financial stability of banks. As of 2021, total loans amounted to 276,974.8 billion soums, of which those with a state share amounted to 244,483.9 billion soums, and those belonging to other banks amounted to 32,490.9 billion soums. Problem loans amounted to 5,784.8 billion soums, of which those with a state share amounted to 5,167.6 billion soums, and those belonging to other banks amounted to 617.2 billion soums. The value of loans has increased over the years.

In 2024, total loans amounted to 471,405.5 billion soums, of which 333,298.0 billion soums were state-owned, and 138,107.4 billion soums belonged to other banks. Problem loans amounted to 16,621.3 billion soums, of which 13,267.1 billion soums were state-owned, and 3,354.2 billion soums belonged to other banks. Currently, the bulk of problem loans falls on loans issued by the state for entrepreneurship of the population[12].

In accordance with international Basel III standards, the requirements for the formation of a capital buffer of 1.5-2 times for loans allocated at high interest rates and for problem loans have been put into practice. The activities of commercial banks are being stress-tested in various scenarios, and measures are being taken to reduce risks that negatively affect their capital and liquidity in the future. According to the results of 2021, the capital adequacy ratio in the banking system was 17.5 percent, which is higher than the minimum requirement (13 percent).

In implementing the financial stability of the banking system, attention should be paid to the bank rating, and the bank rating directly affects financial stability. Without a rating, neither the entire practical nor personal life can be imagined [13].

A rating is a final assessment of a specific object or entity, and is an extremely important tool for decision-making. Because, let's say, it shows the banker the direction of development of the bank, the revival of business, and therefore the possibilities of profit. Also, the rating system is very necessary:

- in the comparative analysis of the activities of banks based on the standards accepted in international practice;
- in identifying the position and authority of this bank in the financial market, as well as problematic banks;
- in monitoring the trends in the development of banks, analyzing the dynamics of general and specific indicators;
- in assessing the efficiency of banks.

Using the rating method, which takes into account the wishes and desires of all interested parties, it is possible to get answers to questions such as where the population's deposits are most, in which banks at what interest rates they are placed, what is the situation with deposits, and to what extent certificates and shares are being bought[14].

In international practice, there are many types of bank rating assessment. Among them, the following two methods are most common:

- assessment by quantitative indicators;
- assessment through qualitative indicators.

The method of assessment through quantitative indicators is mainly used to analyze the

development of bank activities, which include:

- the amount of assets;
- deposits;
- loans;
- the amount of equity;
- the amount of income.

These indicators are used to publicize the activities of banks.

The second type of assessment using the media is qualitative indicators, which express the level of reliability of the bank. This category of indicators includes: capital adequacy, asset quality, profitability, bank liquidity[15].

Conclusion

1. The financial stability of commercial banks, on the one hand, is aimed at expanding and increasing the financial activities of banks, and on the other hand, investing in various sectors and industries for the development of the economy requires close attention to issues such as assessing the liquidity of commercial banks. Determining the ways and methods of ensuring the financial stability of banks is of particular relevance, and the bank should conduct its activities smoothly, closely aligning its activities with the goals of achieving long-term positive results.

2. The main goal of bank supervision is to protect the interests of bank customers and creditors. The adequacy and effectiveness of supervision over the activities of banks is a key factor in ensuring the stability of the banking system and strengthening confidence in banks. In recent years, the risk of bank failure has increased, which requires the continuous implementation of supervision over banking activities. By the 1980s, the banking supervision system began to take shape internationally, and at the same time, the Basel Committee on Banking Supervision was formed. Given the rapid development and integration of the banking system, the requirements of this committee are increasing from year to year.

3. Rating is a final assessment of a specific object or entity and is an extremely important tool for decision-making. Because, for example, it shows the banker the direction of development of the bank, the revival of business, and therefore the possibilities of making a profit.

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