



IMPROVING THE METHODS OF ENSURING FINANCIAL STABILITY IN THE COMMERCIAL BANKING SYSTEM

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<https://doi.org/10.5281/zenodo.15503993>

Abstract: The article reveals the financial stability in the activities of banks, the Central Bank's capital adequacy calculation methodology is brought into line with the standards of the Basel Committee, and financial stability can be achieved in the banking system by reducing problem loans. An increase in problem loans in the banking system has a negative impact on ensuring financial stability.

Key words: monetary policy, international financial market, commercial banks, development strategy, financial stability, Central Bank, inflation, loan deposits, problem loans, capital adequacy, stress tests, resources, financial system, possible losses.

Introduction

Based on the priority goals and objectives set out in the Decrees of the President of the Republic of Uzbekistan No. PF-158 dated September 11, 2023 "On the Strategy of Uzbekistan-2030", No. PF-60 dated January 28, 2022 "On the Development Strategy of New Uzbekistan for 2022-2026", No. PF-5992 dated May 12, 2020 "On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025", the Central Bank of the Republic of Uzbekistan is pursuing a policy aimed at ensuring the financial stability of the banking system.

Despite the ongoing conflicting geopolitical situation in the world, as well as the increased volatility in financial markets due to uncertainties in the financial systems of developed countries, the positive trend in the global financial conditions index remained in 2023, but the observed high interest rates on loans reduced demand. Also, defaults for certain segments of borrowers continued to increase, reducing banks' appetite for credit risk.

The activities of the Central Bank of the Republic of Uzbekistan in 2023-2024 are aimed, first of all, at ensuring the formation of the inflation rate within the forecast indicator, in the context of increasing high investment and production activity in the economy, continuing financial support from the state, and secondly, at maintaining the financial stability of the banking system at an acceptable level, despite the slowdown in global inflationary processes and the increase in the cost of attracting external resources.

The transition of the inflation rate to a downward trend since the first quarter of 2023 made it possible to reduce the additional burden on the key rate in order to curb inflationary expectations in 2022. The key rate was reduced from 15 percent to 14 percent, and later in August 2024, we will witness its reduction to 13.5 percent, and a "relatively tight" monetary policy was maintained.

In order to ensure financial stability in the activities of banks in 2023-2024, as a part of prudential measures, great attention was paid to improving the quality of the banking system's loan portfolio and reducing the volume of problem loans in its composition.

The Instruction of the Central Bank of the Republic of Uzbekistan "On the Procedure for Classification of Asset Quality in Commercial Banks and Formation and Use of Reserves to

Cover Possible Losses on Assets” (state registered by the Ministry of Justice of the Republic of Uzbekistan on July 14, 2015 under No. 2696) establishes the formation of reserve allocations for five categories of classified loans in the following order:

Based on this instruction, as of January 1, 2024, 80 percent of the commercial banks' loan portfolio can be classified as "standard", 16 percent as "substandard", and 3.5 percent as problem loans (1.5 percent as "unsatisfactory", 1.1 percent as "doubtful" and 0.9 percent as "hopeless").

Based on the requirements set out in the instruction, commercial banks created additional reserves on assets in the amount of 2.4 trillion soums (excluding the "standard" loan portfolio) in 2023, and the level of coverage of problem loans with reserves increased from 80 percent in the same period last year to 82 percent as of January 1, 2024. This indicator is positive for the banking system of our republic.

In order to manage the largest risks that are important for the banking system's operations and study their impact on the financial condition of banks, a system has been established to analyze the financial condition of the top 50 debtors in the banking system's loan portfolio.

Existing weaknesses in the monitoring process were discussed at the meetings of the Central Bank Board, and commercial banks were tasked with systematically monitoring the 20 largest debtors and providing information to the Central Bank based on the results. In addition, the Central Bank continued to align the capital adequacy calculation methodology with the standards of the Basel Committee in 2024.

In 2023 and 2024, the Central Bank's macroprudential policy was aimed at ensuring the financial stability of the banking system at an appropriate level in the face of continued uncertainties in the global economy.

In order to minimize the negative impact of possible risks on the capital and liquidity of banks, the activities of banks were constantly analyzed based on control indicators developed with the assistance of World Bank experts and IMF financial stability indicators, and stress tests were conducted in various scenarios.

Based on the results of the conducted stress tests, it was possible to fairly assess the quality of commercial banks' assets, form sufficient reserves against potential losses on them, monitor the financial condition of the largest clients important to banks, improve the system for collecting problem loans, remove non-banking assets from the bank balance sheet, rationalize expenses, and take appropriate measures to form capital and liquidity buffers in a timely manner.

Conclusion.

Based on the above considerations, the following conclusions can be drawn:

1. To achieve a quantitative reduction of the largest risks that are important for the activities of the banking system and to manage them in order to study their impact on the financial condition of banks, based on improving the system for analyzing the financial condition of debtors in the loan portfolio of the banking system.

2. Increase the Central Bank's focus on aligning the capital adequacy calculation methodology with the Basel Committee standards.

3. Ensure that risks that may arise in banking activities are constantly analyzed on the basis of control indicators developed with the assistance of World Bank experts and the

International Monetary Fund's financial stability indicators in order to minimize the negative impact of such risks on banks' capital and liquidity.

4. Based on the results of stress tests conducted in commercial banks, great attention should be paid to ensuring a fair assessment of the quality of their assets and the formation of sufficient reserves against potential losses.

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