

Fundamentals of Ensuring the Financial Stability of the Country's Banking System

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Annotation:

This article discusses various approaches to ensuring the financial stability of the country's banking system in any conditions of its viability, carrying out all banking operations in accordance with customer requirements and ensuring the financial stability of banks, which are the implementation of differentiation of financial stability depending on goals and objectives. Also, to date, improving the financial stability of commercial banks consists in determining the structure of assets and liabilities of banks, increasing the level of profitability of banks, stimulating the need for effective management of existing banking risks. On the way to achieving these goals, the author conducted research and obtained results.

Keywords: Commercial banks, financial system, banking system, Bank resources, financial stability of banks, banking sector, private sector, financial intermediation, financial decisions, financial stability.

Introduction. There are different approaches to assessing the financial stability of commercial banks, which differ depending on the purpose and objectives of the assessment. In this case, economic entities are often based on models that are used and approved by the supervisory authorities. Therefore, the latter is of particular primary importance.

Financial stability is the ability of the financial system, that is, financial institutions, markets and market infrastructures, to withstand possible shocks and imbalances, while at the same time reducing the likelihood that it will not be able to perform financial intermediary functions. The purpose of financial stability is to ensure the stability of the entire financial system, and not a separate financial institution. Financial stability is the basis of sustainable development of the economy.

The financial system is stable when banks, other credit organizations and financial markets are able

to provide households and business entities with the necessary financial investments for their participation in the economy and its growth, if they do not allow the system to slow down sharply. Otherwise, in an unstable system, economic shocks can have an unpleasant effect on the real economy, derail lending and lead to more than expected risks, reduce employment and weaken economic activity. The above points determine the relevance of the topic of research and its scientific and practical significance.

Analysis of thematic literature. G.Melikyan, on the other hand, gives a definition that it is necessary to approach the definition of financial stability of banks in two ways, dividing it into microdarajas and macrodarajas. In his opinion, microdistrict believes that the financial stability of banks is in ensuring the viability, duration of banking activities in the fulfillment of the goals and objectives of banks associated with customers under any circumstances. In macrodaraja, banks believe that, linking their financial stability with different entities of the economy, the banking system can avoid various economic difficulties, ensuring the stability of the system [1].

Ye.V.Korchagina cites a definition in his views as follows. “Financial stability is explained through the level of orientation of one's own funds in the form of investment, support for the organization of new directions of the activity and production cycle, financing of tasks that cannot be delayed, and the level of financial provision” [2].

I.A.Pavlova believes that the essence of the bank's financial stability is “its financial condition, in which the economic activity of the bank makes it possible to ensure all its obligations [3]”. I.N.Omelchenko and Ye.V.According to Borisova, “financial stability is the ability of a bank to maintain its own financial stability in conditions of constantly changing market conjuncture [4]”. L.T.Gilyarovskaya and A.A.Vexorevas noted that the concept of bank financial stability is such that in the process of allocation and use of existing resources, not only solvency is ensured, but at the same time development in the goal of achieving profit and capital growth is achieved [5].

N.L. Danilova cites the following definition of financial stability of banks. “According to him, the stability of the bank's financial situation, which is provided with a sufficient share of its capital as part of the sources of financing, is called the financial stability of the Bank” [6].

“Several different approaches are used to assess Bank Financial Stability”: traditional, resource-management, resource approach, stochastic analysis-based assessment, plurality theory, and other types of accounting methods can be used [7] about ligi D.A. Yendovisky, a.V. The yendoviskaya have cited their scientific views.

A.U.Burkhanov believes: “financial stability: firstly”, a single enterprise characterizes not the structure of investment, but the state of enterprise finance as a whole; secondly, “the possibility of making a profit and paying off debts, financing the enterprise itself, and the speed of resource turnover is a comprehensive indicator of the activities of enterprises based on the development; third”, “reflects the results of the development and financial activities of the enterprise, and, taking into account the inverse relationship between them, manifests itself in the systematic process of the harmony of these results”; fourth, states that “it provides the highest return on the investment invested by managing the working capital of the enterprise” [8].

I.T. Balabanov noted that “the financial stability of the bank is characterized by the placement and use of funds, replenishment of its own funds at the expense of the amount of profit, as well as other resources taking into account the plan, the speed of circulation of basic and working capital” [9].

P.A. Shalpanov to the financial stability of commercial banks “... provides a definition that it performs its functions by transforming banking resources and effectively managing risks while resisting internal and external factors”. These points, in turn, do not fully reflect the essence of financial stability. The reason for this, firstly, the activities of commercial banks were considered in

our eyes in a somewhat narrow circle, and secondly, the author's attitude to the liquidity and solvency of banks seems somewhat ambiguous [10].

Also, there are no cases in some economic literature in which more detailed coverage of the provision of banking financial barcarry is provided. For example,... “Financial stability is the ability of a system of financial institutions and markets to function efficiently and sustainably, despite possible economic changes and shocks”. It is characterized by the absence or minimum level of financial crises, the stability of the banking system, the reliability and convenience of financial services for the real sector of the economy.

Methods used in the implementation of the study. In the implementation of the goals set in the implementation of the study, methods of logical and structural analysis, grouping, economic-statistical analysis, mutual and comparative comparison were effectively used.

Results obtained. As a result of the analysis carried out, there are various approaches to ensuring the financial stability of commercial banks of Uzbekistan, on the basis of which economic entities are often used and approved by the supervisory authorities, as well as situations that are an obstacle to the development of models, as well as ways to eliminate them, in order to distinguish the assessment.

Analysis. The structural basis of financial stability of commercial banks is capital, liquidity, effective regulation and control, risk management and transparency. The combined use of these components helps to create a stable financial system that can withstand economic difficulties and ensure long-term development.

Throughout 2023, there was a softening of financial conditions globally. Despite the increase in fluctuations in the financial markets due to the ongoing controversial geopolitical situation in the world, as well as the uncertainties that have arisen in the financial systems of developed countries, in 2023 a positive trend remained in the world financial conditions index. Also, positive changes in the securities market, including the low volatility levels observed in their prices, have affected the softening of the global macro-financial situation.

In most states, risks associated with financial conditions remain. The high level of profitability observed in sovereign bonds of developed countries has caused a reduction in investment in the assets of developing countries in the international market. In addition, the high interest rates observed during 2023 reduced demand for loans. Also, cases of inability to fulfill obligations for certain segments of borrowers continued to increase, reducing banks' enthusiasm for credit risk. Under the influence of financial conditions in the environment of high interest rates, difficulties may arise in the economy of weaker developing countries¹.

Despite the weakening of the current state of the banking system, the development of financial business these shows were held higher than the minimum requirements. In 2023, the indicator of the net stable financing coefficient decreased to 3.8 foyiz band. Due to the decrease in the volume of highly liquid activities, there was a sharp decrease in the indicator of liquidity support coefficient, the word 2023 was 165 percent. In 2023, there was almost an increase in the monandity coefficient of regulatory capital and a decrease of only 0.3 percent of employment compared to the end of 2022.

The map of the state of financial stability in the banking system showed that the growth and profitability of assets remained almost unchanged. In 2023, the profitability indicator of assets was formed around 2.5 percent without changes. In 2023, the growth rate of total assets has slowed slightly, being 8 percent lower than in 2022. (Figure 1)

¹ International Monetary Fund. (2024, January). World Economic Outlook.

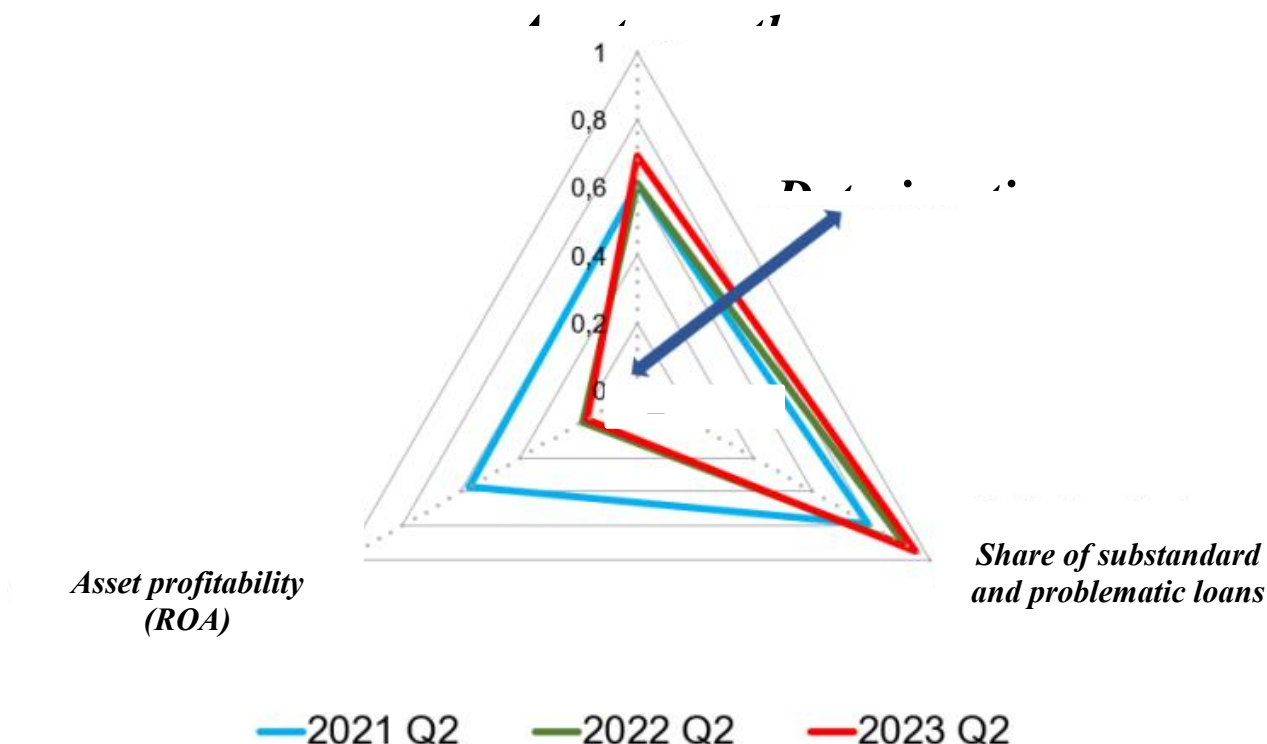


Figure 1. State of financial stability of the bank system of the Republic of Uzbekistan²

As of the end of the first half of 2023, the decrease in the interest-bearing cost recovery factor by 4 percent compared to the corresponding period of the previous year indicates a decrease in the possibility of banks being able to cover interest payments on the debts involved from bank profits. There was also a positive change in the ratio of loans allocated to individuals to the income of the population at the end of the I half of 2023 compared to the corresponding period of 2022.

On the map of the state of financial stability in the banking system, it can be seen that the risks associated with a slowdown in the growth of assets and an increase in the volume of assets whose payments are delayed for more than 31 days have slightly increased. In particular, in the first half of 2023, the growth rate of bank assets decreased by 8 percent in terms of the corresponding period of 2022. Also, the share of problem loans classified as substandard and below has increased by 2 percent by the end of the I half-year of 2023 compared to the corresponding period of last year. A positive situation has arisen in the profitability indicator of banks, and the profitability indicator of assets has been formed at the level of 2.7 percent for the past two years without changes.

When assessing the financial stability of commercial banks, the rating company divides banks into “large”, “medium” and “small” groups, as we noted above. Classified banks study, analyze on the basis of their total assets, asset profitability (ROA), credit portfolio and its quality, liquidity status, dynamics of bank income and expenses, as well as bank net profit, liabilities, deposit structure, share capital, capital profitability level (ROE) and other indicators, publish relevant results on the state of economic norms of banks and financial stability of banks.

The practice of assessing the financial stability of commercial banks through the world banking experience CAMELS rating system is widely used. Through this rating system, there is the practice

² <https://cbu.uz/> compiled by the author on the basis of the reference.

of evaluating banks ' capital and its adequacy, asset quality, management, profitability, liquidity, and market risk sensitivity. The CAMELS rating system was developed and put into practice by the U.S. Federal Reserve System, the Federal Deposit Insurance Corporation, and the Comptroller of money circulation.

Table 1. The result of rating commercial banks financial position through the CAMELS rating system³

№	Total score by CAMELS rating system	Bank Rating
1.	In the range of 1 – 1,4 points	strong
2.	In the range of 1,5 – 2,4 points	satisfactory
3.	In the range of 2,5 – 3,4 points	middle
4.	In the range of 3,5 – 4,4 points	critical
5.	In the range of 4,5 – 5,0 points	unsatisfactory

The CAMELS rating system is rated on the basis of the six components above, and is rated up to the strongest 1 point, the weakest 5. Through the CAMELS rating system, the financial stability of commercial banks is assessed through the results of the following cumulative table.

From Table 1 data, we can see that through the CAMELS rating system, commercial banks are divided into financial stability from a “strong” rating to an “unsatisfactory” rating. It is advisable for commercial banks to conduct an in-depth analysis of each component, study it, take measures to improve their main indicators.

We know that for many times, commercial banks have been focusing on the total amount of their gross assets and gross deposits in determining their financial stability. But, in the practice of foreign countries today, when determining the financial stability of banks, capitalization is one of the most basic criteria . The level of capitalization is determined by multiplying the market price of ordinary shares by the number of shares in circulation. At the same time, the American economist-scientist J.Sinki argues that in the ranking of commercial banks, the total amount of gross assets and the rating of the level of their capitalization do not correspond. For example, the Bank of New York received Rs 37 crore. The U.S. dollar was ranked 6th with capitalization,while the assets totalled 77 crore. Ranked 15th with US dollars.

According to a study by the bank for International Settlements, it was noted that the ratio of credit to GDP ratio difference and debt service ratio are the most reliable indicators of early warning against crises [11]. In particular, the difference in the ratio of credit to GDP is a useful indicator in the warning before the longer term from crises. Debt servicing ratio has the property of being able to show more clearly warning signals that there will be a crisis 2 years in advance. It has also been found that the index of the share of unsustainable liabilities is effective in issuing crisis alerts. An increase in unsustainable liabilities in proportion to a sharp increase in loans is one of the indicators that can predict an increase in financial vulnerabilities.

³ Compiled by the author on the basis of the reference.

Conclusion. As a result of comprehensive measures to ensure a high level of capitalization of commercial banks, strengthening liquidity and increasing the deposit base and ensuring financial stability, high rating indicators and an increase in the volume of loans allocated to the real sector of the economy are achieved.

When ensuring the financial stability of commercial banks, it is advisable to take into account the following aspects:

First, banks must have enough capital to cover potential losses and ensure the stability of their activities. Capital is the main source of financial stability of the bank.

Secondly, banks need to properly manage their assets to minimize risks and ensure stable profitability. The variety of assets helps to mitigate potential losses.

Thirdly, liability management also plays an important role in ensuring the financial stability of the bank. It is necessary to maintain a balance between the resources involved and the borrowed funds.

Fourth, banks must have effective risk management systems to prevent possible financial losses and ensure sustainable activities.

Fifth, banks must have sufficient liquidity to cover current and future obligations to customers. Lack of liquidity leads to serious problems for the bank.

Sixth, it is desirable that commercial banks also strictly comply with all regulatory requirements established by regulatory organizations in order to avoid fines and other consequences.

Compliance with the above tabs will help commercial banks maintain financial stability and successfully operate in the market. So, through the set of indicators named above, a conclusion was formed that any commercial bank can determine the state of financial stability and assess it.

Foydalanilgan adabiyotlar

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