THE USA JOURNALS
THE AMERICAN JOURNAL OF MANAGEMENT AND ECONOMICS INNOVATIONS (ISSN- 2693-0811)
VOLUME 06 ISSUE08

PUBLISHED DATE: - 31-08-2024
DOI: - https://doi.org/10.37547/tajmei/Volume06Issue08-10 PAGE NO.: - 114-120

RESEARCH ARTICLE Open Access

PRIORITY DIRECTIONS OF PROVIDING FINANCIAL STABILITY OF COMMERCIAL BANKS IN THE CAPITAL MARKET

Khasanov Khayrullo Nasrullaevich
Associate Professor of Tashkent State University of Economics, Uzbekistan

Abstract
This article describes the importance of commercial banks in the development of economic sectors, the theoretical basis of ensuring the financial stability of commercial banks, the role of commercial banks in strengthening the financial supply of corporate structures. Financial stability trends of commercial banks in the Republic of Uzbekistan were analyzed in the last five years. Scientific proposals and recommendations on ensuring and strengthening the financial stability of commercial banks have been developed.

Keywords Commercial banking, financial stability, liquidity, innovation, strategy, highly liquid asset, cash, loans, asset operations.

INTRODUCTION

The role of commercial banks is important in the modernization of economic sectors, the positive resolution of issues related to the financing of large production enterprises, and the organization of financial activities of corporate structures. It should be noted separately that in recent years significant work has been carried out in comprehensive development of commercial banks, acceleration of transformation processes in banks, reduction of state participation in their authorized capital. Of course, in these processes, it is important to regulate the activities of commercial banks in the state, to improve regulatory documents based on international standards.

In the Development Strategy of New Uzbekistan for 2022-2026, "completing transformation processes in commercial banks with a state share and bringing the private sector's share in bank assets up to 60% by the end of 2026"[1] is defined as one of the main goals. In this process, ensuring the financial stability of commercial banks, coordinating the corporate management policy in accordance with the changes in the external environment, developing relations with the capital market in the formation of additional sources of financial support is one of the urgent issues. In the field of scientific activity of our country, scientific research is being carried out to improve the activity of commercial banks and develop its special directions and fields. Based on the above, it should be noted that the development of scientific proposals and practical recommendations for ensuring the financial stability of commercial banks is considered one of the important tasks in the development of the financial sector of the economy.

Review of literature

Financial stability of commercial banks is one of the main components of their successful operation. Ensuring the financial stability of banks is an important factor not only for the bank itself but also for the financial system of the entire country. To find ways to study, analyze and improve the effectiveness of this topic, several scientists have conducted research.

According to O. B. Salomov, one of the scientists of our country, said "the financial stability of commercial banks is the ability to withstand the negative consequences of the internal and external environment by strengthening its position in the market of banking services while ensuring the positive state of its financial indicators and activities in the process of making a profit" [2]. The capacity of commercial banks to provide investment loans is primarily determined by the adequacy of their resource base. The first part of the resource base of commercial banks of our country consists of capital, and the second part consists of deposits. In recent years, commercial banks have tended to increase both capital bases and deposit bases. It is worth noting that, although deposits in commercial banks of our republic have a general growth trend, their base should be further strengthened at the expense of long-term deposits [3]. Bank liquidity refers to the bank's ability to quickly and with minimal costs turn its assets into cash to fulfill its obligations. If the liquidity situation of commercial banks is not effectively managed, if a practical action plan is not developed in case of emergencies, in most cases banks will face a liquidity crisis or even bankruptcy. Maintaining a balance between meeting short-term liquidity needs and obtaining high profits at the expense of long-term investments in illiquid assets is the main component of bank management [4].

According to the conclusion of F. Mishkin, a professor at the Columbia University of the USA, "main attention should be paid to financial innovations in ensuring the stability of commercial banks. Significant fluctuations in interest rates are an important economic factor that directly and strongly affects changes in demand for new financial products" [5]. Russian economist E.L. Zernova emphasized that the strategy of managing bank operations in the conditions of instability or crisis together with the elements of financial stability can guarantee the uninterrupted operation of the bank in the region [6]. According to V. Biloposhka, central banks such as financial institutions play an extraordinary role in ensuring the country's financial stability. The role of central banks in ensuring overall financial stability is to prevent the spread of systemic instability in the banking sector to the entire financial sector and to ensure positive socio-economic consequences for the entire country [7].

In her research, Lucy found that public trust in banks is related to industry-level financial stability indicators, and that bank-level risk measures play only a minimal or at best an additional role. He stated that this result reveals the important role of the overall stability of the banking sector in determining the public's perception of the safety and soundness of individual banks, and justifies the leading role of industry-level stability in ensuring trust in banks [8]. Y. Rizki emphasized the importance for financial sector regulators to understand the relationship between financial technology (FinTech) and financial stability. He stated that the Financial Stability Board highlights the systemic challenges of technological activities, including operational and cyber risks, which in turn can negatively impact financial stability [9]. However, the development of FinTech allows for more innovation that provides more efficient financial services than traditional banking, and therefore the banking industry may have some losses from the existence of FinTech.

METHODOLOGY

During the research, the methods used in ensuring financial stability in commercial banks, as well as the important indicators affecting financial stability were analyzed. Along with studying the current state of these indicators in our country, the reforms carried out in the banking system and the study of theoretical and empirical literature on this topic were widely used, and thus methods such as critical thinking and systematic approach were widely used.

ANALYSIS AND RESULTS

The activities of the Central Bank of the Republic of Uzbekistan in 2023, on the one hand, to ensure the formation of the inflation level within the forecast indicator in the conditions of increased high investment and production activity in the economy, continuation of financial support from the state, and on the other hand, in the conditions of the increase in the cost of attracting external resources despite the slowdown of global inflationary processes focused on maintaining the financial stability of the banking system at an acceptable level.

In 2023, the global economy will enter a period of "stabilized volatility" (stabilized volatility) - a period of new traditional uncertainties, which, in turn, will be manifested by the increasing influence of geopolitical processes on the economy - inflation, disruptions in supply chains, changes in the structure of budget expenditures and other trends. The International Monetary Fund reported that global economic growth in 2023 slowed by 0.3 percentage points compared to 2022 to 3.2 percent2. In this case, it was observed that economic growth in developed countries slowed down from 2.6% to 1.6% (-1.0 f.p.) in 2022, while in developing economies this indicator accelerated from 4.1% to 4.3%.

In 2023, the net profit of the banking system increased by 24% compared to 2022 and amounted to 12.4 trillion soums. In this case, the amount of gross revenues received amounted to 128.7 trillion soums and expenses to 116.4 trillion soums. Interest income accounted for 67% of the total income of banks, and non-interest income accounted for 33%. 88.3% of interest income comes from loans and customer obligations, 6.2% from funds placed in other banks, 5.5% from securities. In 2023, there were positive changes in the profitability indicators of the banking system. At the end of the reporting year, the profitability of banking system assets increased by 0.1 percentage points to 2.6%, and the return on capital increased by 0.9 percentage points to 14.2% (Figure 1).

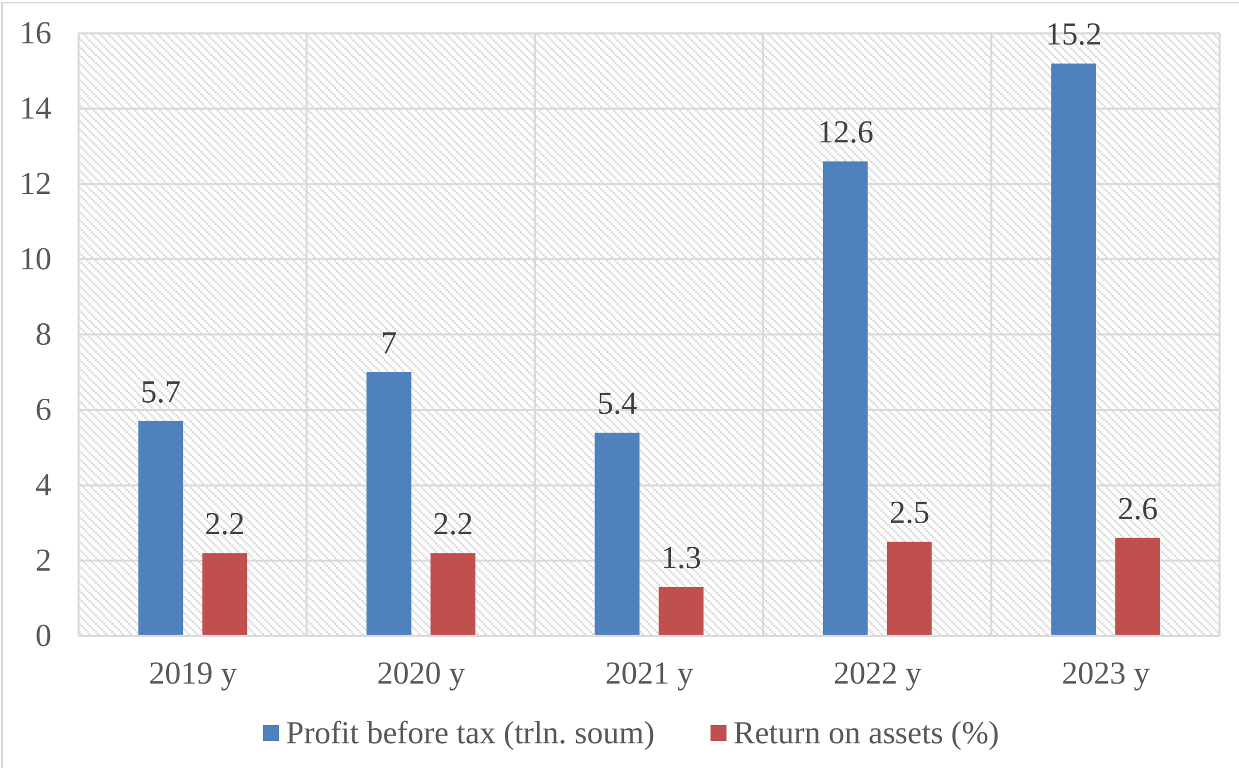

Figure 1. Dynamics of banking system return on assets (ROA).[1]

By the end of 2022, the banking system's return on assets has almost doubled compared to the beginning of the year, to 2.5 percent, and the return on capital has reached 13.3 percent. Here, factors such as net interest margin (3.4 percent), ratio of non-interest income to assets (6 percent), leverage ratio (0.6 percent), reduction of tax burden on profit (0.8 percent) had a positive effect on the change of capital profitability. , the growth of reserves (-2.5 percent) and the ratio of non-interest expenses to liabilities (-1.1 percent) had a negative impact.

In 2023, the total capital of commercial banks increased by 22% to 97 trillion soums by the end of the year, and the authorized capital increased by 15% to nearly 69 trillion soums. Also, by the end of 2023, the amount of regulatory capital in the banking system was 106 trillion soums and risk-weighted assets was 604 trillion soums, the capital adequacy ratio was 17.5 percent (minimum requirement 13 percent).

The fact that the capital adequacy ratio of the banking system remains high at the end of the year compared to the indicators formed in other months is due to the change in the calculation methodology of the capital adequacy ratio. In 2023, the amount of highly liquid assets decreased by 7.6 trillion soums or 7% to 97 trillion soums. In this case, as part of highly liquid assets, assets in national currency decreased by 4.5 trillion soums, and assets in foreign currency decreased by 3.1 trillion soums, their volume was 46.5 and 50.4 trillion soums, respectively (Table 1).

Table 1
Dynamics of composition and share of highly liquid assets in total assets [2]

№	Indicators	2019 y	2020 y	2021 y	2022 y	2023 y
1.	Cash	5,7	7,9	10,7	19,3	20,2
2.	Government securities	4,7	13,6	15,7	25,2	22,9
3.	Amount of highly liquid assets	30,5	50,0	76,0	104,5	96,9
4.	Funds in the Central Bank	19,6	23,5	29,4	33,9	30,4
5.	Funds in other banks	11,4	16,2	19,8	28,4	23,5
6.	Share of highly liquid assets in total assets (%)	11,3	14,2	17,7	19,4	14,9

The decrease in highly liquid assets occurred against the backdrop of the increase in the cost of external resources because of the central banks of developed countries increasing their key rates, and investors directing their funds to safe assets amid global instability. Despite the decrease in the volume of highly liquid assets, short-term liquidity (LCR) and long-term liquidity indicators (NSFR) in the banking system were formed at an acceptable level due to the formation of stable internal resource funds because of the 29% increase in national currency deposits (38 trillion soums). Although the liquidity coverage rate (short-term liquidity) of the banking system decreased from 212 percent to 165 percent (minimum requirement 100 percent) during the year, even in the event of unexpected stress situations in the banking system, banks could fully fulfill their obligations to customers for the next 30 days.

CONCLUSION

It is necessary to implement the following measures to strengthen financial stability in commercial banks: attract stable deposits, develop a development strategy, retrain and improve the skills of employees, etc. Attracting stable deposits To ensure reliable financing of the bank, it is important to attract stable and long-term deposits. And the development strategy commercial banks should have a clear development strategy that will help them achieve sustainable growth and increase profits.

The financial stability of commercial banks can be defined both from the perspective of a narrow concept (liquidity of the bank, solvency) and the perspective of a broad concept - i.e. recovery of its financial condition after the impact of various destabilizing factors (recovery of the situation - the bank's ability to ensure financial stability, return to its previous position, its continue to fulfill their obligations and tasks and achieve their goals and objectives).

The complex model of assessment of financial stability in banks can be defined as a system that includes various assessment models (rating system, remote monitoring and risk assessment) that complement each other and allow to formation a situation about the current state of the bank. The structure of the model includes a general description of the evaluation system (evaluation criteria and methods, the order of its formation); indicators that meet individual criteria; a method of forming a generalized assessment by criteria and by the bank as a whole.

REFERENCES

1. Ўзбекистон Республикаси Президентининг 2022 йил 28 январдаги ПФ-60-сон «2022-2026 йилларга мўлжалланган янги Ўзбекистоннинг тараққиёт Стратегияси тўғрисида»ги Фармони. https://lex.uz/docs/5841063
2. О.Б.Саломов Тижорат банклари молиявий барқарорлигини таъминлашнинг назарий асослари. “Молия тизимини ривожлантиришнинг замонавий тенденциялари ва истиқболлари” мавзусидаги халқаро илмий-амалий анжуман тўплами, Тошкент 2022 йил 4 апрель. Б-691-696
3. Додиев Ў.Ф. Тижорат банкларининг инвестиция фаолиятини ривожлантириш йўллари//Иқтисод ва молия/Экономика и финансы 2014, 3.
4. Бердияров Б.Т. Тижорат банклари ликвидлилигини таъминлашнинг назарий масалалари//“Иқтисодиёт ва инновацион технологиялар” илмий электрон журнали. № 4, июль-августь, 2016 йил.
5. Ф.Мишкин Экономическая теория денег, банковского дела и финансовых циклов. Пер. с англ. – М.: ООО «И.Д.Вильямс» 2013 – с 295.
6. Е.Л.Зернова Стратегия управления банковскими операциями как инструмент обеспечения финансовой устойчивости коммерческого банка//Actual issues of modern science and society – 1/2020;
7. Viktoriia Biloshapka, Igor Britchenko, Iryna Okhrymenko Central banks as leaders in ensuring financial stability// Proceedings of the 3rd International Conference on Social, Economic, and Academic Leadership (ICSEAL 2019)
8. Lucy Chernykh, Denis Davydov, Jukka Sihvonen Financial Stability and Public Confidence in Banks Journal of Financial Stability Volume 69, 2023, 101187, ISSN 1572-3089 https://doi.org/10.1016/j.jfs.2023.101187.
9. Rizky Yudaruddin, Wahyoe Soedarmono, Bramantyo Adi Nugroho, Zhikry Fitrian, Mardiany Mardiany, Adi Hendro Purnomo, Eka Nor Santi Financial technology and bank stability in an emerging market economy. Heliyon, Volume 9, Issue 5, 2023, e16183, ISSN 2405-8440,
10. https://doi.org/10.1016/j.heliyon.2023.e16183.
11. Hamdamov O. N. PROSPECTS FOR INCREASING THE IMPORTANCE OF FINANCIAL MANAGEMENT IN ENSURING THE FINANCIAL STABILITY OF STOCK COMPANIES //Theoretical & Applied Science. – 2021. – №. 8. – С. 215-219.

12. www.napp.uz - Ўзбекистон Республикаси Истиқболли лойиҳалар миллий агентлигининг расмий веб-сайти.

13. www.stat.uz - Ўзбекистон Республикаси Президенти ҳузуридаги статистика агентлигининг расмий веб-сайти

14. www.cbu.uz – Ўзбекистон Республикаси Марказий банкини расмий веб-сайти