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Methods to Strengthen the Financial Stability of the Banking System

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ABSTRACT: This article investigates different strategies for maintaining the financial stability of the country's banking system under any circumstances, conducting all banking activities in line with customer demands, and ensuring the stability of banks by tailoring financial stability measures to specific goals and objectives. Furthermore, the current approach to enhancing the financial stability of commercial banks involves analyzing the composition of their assets and liabilities, boosting banks' profitability, and promoting the adoption of efficient risk management practices. During the pursuit of these objectives, 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. Various methodologies exist for assessing the financial stability of commercial banks, with variations based on the specific purpose and goals of the evaluation. Economic entities often rely on models used and endorsed by regulatory authorities in this scenario. Therefore, the role of regulatory authorities is of primary significance.

Financial stability refers to the capacity of the financial system, including financial institutions, markets, and market infrastructures, to endure potential shocks and imbalances while also minimizing the risk of being unable to carry out its role as a financial intermediary. The objective of financial stability is to guarantee the stability of the whole financial system rather than that of individual financial institutions. Economic sustainability relies on the foundation of financial stability.

A stable financial system is characterized by the ability of banks, credit organizations, and financial markets to effectively supply consumers and businesses with the required financial investments to participate in and contribute to the development of the economy without experiencing significant slowdowns. In an unstable system, economic shocks may have adverse effects on the actual economy, disrupting credit and increasing unforeseen risks, resulting in reduced employment and weakened economic activity. The aforementioned factors determine the study's relevance as well as its scientific and practical value.

LITERATURE REVIEW.

G. Melikyan presents a concept of financial stability for banks that requires consideration from two perspectives: micro-level and macro-level. Microdistrict believes that banks' financial stability lies in guaranteeing the sustainability and longevity of their operations and achieving the aims and objectives related to consumers, regardless of the conditions. Within the macroeconomic framework, banks hold the belief that by establishing connections between their financial stability and other entities within the economy, the banking system can effectively mitigate a range of economic challenges, guaranteeing the overall stability of the system (Axrorov, Z. O. 2017).

According to Ye.V. Korchagina, financial stability can be defined as follows: The extent to which one allocates their own money towards investments, supports the development of new activities and production cycles, funds urgent tasks, and ensures enough financial resources determines financial stability (Korchagina Ye.V. 2005).

According to I.A. Pavlova's theory, the core of a bank's financial stability is its financial condition, where its economic activity enables it to meet all of its obligations (Pavlova I.A. 2017). I.N. Omelchenko and Ye.V. According to Borisova, financial stability is "a bank's ability to maintain its own financial stability in the face of constantly changing market conditions" (Omelchenko I. I 2017). Gilyarovskaya L. T and Vehoreva, A. A. highlighted that the idea of bank financial stability is such that in the process of allocation and use of existing resources, not only solvency is assured, but at the same time progress in the objective of attaining profit and capital growth is realized (Gilyarovskaya, L. T., & Vehoreva, A. A. 2003).

Danilova, N. L. provides the following explanation of banks' financial soundness: A significant portion of the bank's capital serves as a source of funding, ensuring the bank's financial stability (Danilova, N. L. 2014).

Methods to Strengthen the Financial Stability of the Banking System

Bank financial stability is assessed using several methodologies, including conventional methods, resource-management approaches, stochastic analysis-based evaluation, plurality theory, and other accounting methods (Endovitsky, D. A., & Endovitskaya, A. V. 2005).
According to A.U. Burkhanov, financial stability is primarily determined by the overall state of enterprise finance rather than the structure of investment. Additionally, the ability to generate profit, repay debts, finance the enterprise, and efficiently manage resources is a comprehensive measure of enterprise performance. Furthermore, the results of development and financial activities reflect the enterprise's performance, and their relationship is manifested in a systematic process of achieving harmony. Lastly, Burkhanov states that managing the working capital of the enterprise is crucial for maximizing returns on investment (Burkhanov, A. U. 2019).
Bakanov, M. I., Melnik, M. V., & Sheremet, A. D. noted that a bank's financial stability depends on how it allocates and uses money, replenishes its own capital through profits, and manages other resources, all while taking into account the plan and the efficiency of the circulation of both basic and working capital. (Bakanov, M. I., Melnik, M. V., & Sheremet, A. D. 2005)
According to 10.Drehmann, M., & Juselius, M, commercial banks' financial stability is defined as the ability to use banking resources and successfully manage risks while also withstanding internal and external influences. These principles, however, do not completely capture the fundamental nature of financial stability. There are two main reasons for this. First, we only evaluated the actions of commercial banks within a limited group. Secondly, the author's perspective on the liquidity and solvency of banks seems to be rather unclear (Drehmann, M., & Juselius, M. 2014).
Moreover, certain economic studies fail to provide a thorough examination of the financial capacity of banks. Financial stability refers to the capacity of a network of financial institutions and markets to operate effectively and endure, even in the face of potential economic fluctuations and disturbances. It is defined by the lack or minimal occurrence of financial crises, the stability of the banking system, and the dependable and convenient financial services provided to the actual sector of the economy.

RESEARCH METHOD.

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. 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.

ANALYSES AND DISCUSSION.

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 countries[1].
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 coefficiency, 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.

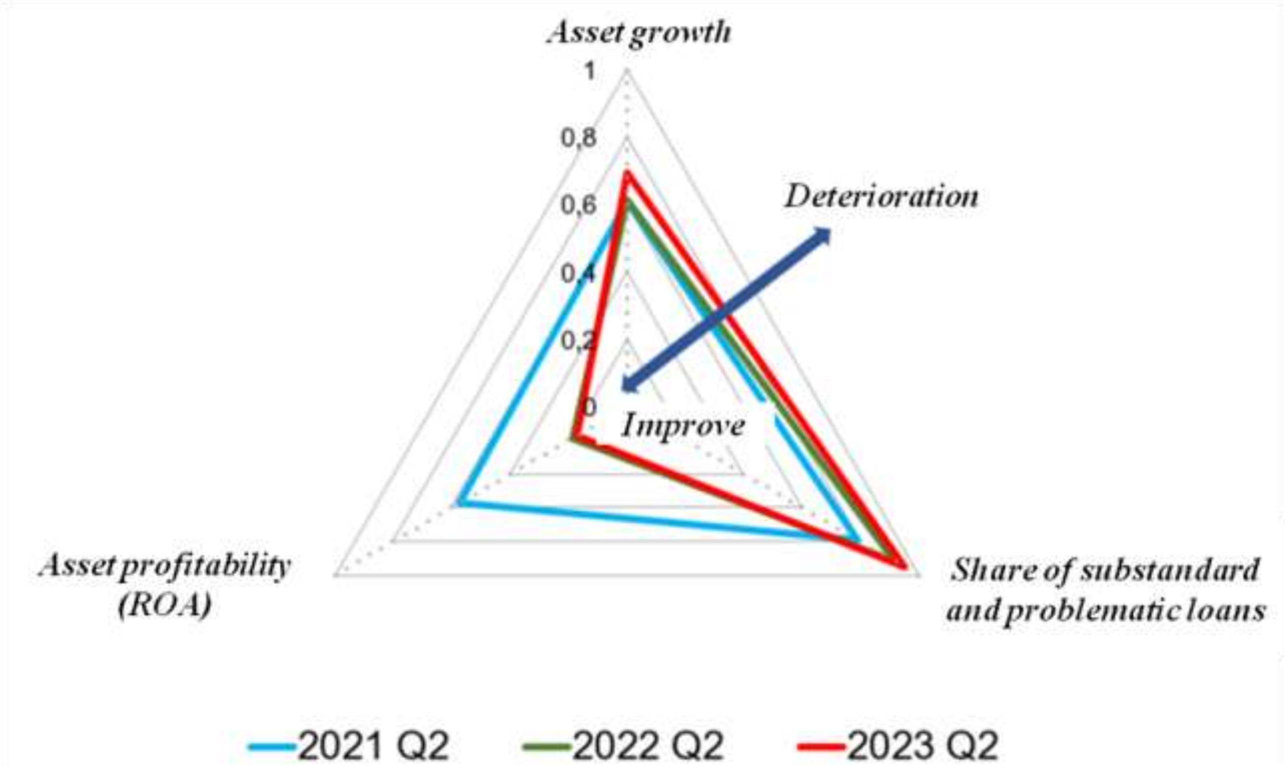

Figure 1. State of financial stability of the bank system of the Republic of Uzbekistan [2]

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 substandart 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 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 system[3]

№	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

[2] https://cbu.uz/ compiled by the author on the basis of the reference.

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

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.

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.

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