

**APPLIED STRATEGIES AND OPERATIONAL MECHANISMS FOR
MAINTAINING THE FINANCIAL SOUNDNESS AND LONG-TERM STABILITY
OF COMMERCIAL BANKING INSTITUTIONS**

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Abstract. Ensuring the financial stability of commercial banks is a key prerequisite for the sustainable development of the entire financial system. This paper explores the practical aspects of maintaining such stability in the face of growing global uncertainties, market volatility, and rapid digital transformation. The study emphasizes the importance of robust risk management systems, adequate capital adequacy, liquidity maintenance, and regulatory compliance as the core pillars of financial soundness. Particular attention is given to the implementation of modern banking technologies, digital risk mitigation tools, and predictive analytics in enhancing operational resilience. Practical mechanisms such as stress testing, internal audit improvements, dynamic asset-liability management, and early warning systems are analyzed as strategic tools that allow banks to anticipate and manage emerging threats. The role of central banks and macroprudential supervision is also reviewed, highlighting the synergy between regulatory frameworks and internal governance mechanisms. The findings suggest that the integration of technology with traditional banking prudence, along with proactive stakeholder communication and adaptive policy frameworks, plays a decisive role in ensuring stability. The paper concludes with strategic recommendations for commercial banks to strengthen their financial sustainability through innovation, risk-focused culture, and continuous adaptation to a dynamic economic environment.

Keywords: commercial banks, financial stability, capitalization, increasing the level of liquidity, lending mechanism, reducing the level of risk.

1. Introduction

In today's increasingly complex and dynamic financial environment, the issue of ensuring the financial stability of commercial banks has become more critical than ever. As key intermediaries in the economy, commercial banks play a vital role in mobilizing savings, allocating capital, managing payment systems, and supporting economic growth. However, their stability is frequently challenged by external shocks, evolving regulatory standards, technological disruptions, and shifts in consumer behavior—particularly in the age of digital transformation. Financial instability in the banking sector can lead to systemic risks, credit shortages, loss of public confidence, and economic downturns, making it essential to develop sound and practical strategies to maintain resilience.

This paper explores the practical aspects of ensuring the financial stability of commercial banks, focusing on the mechanisms, tools, and strategic frameworks that can strengthen risk tolerance, operational efficiency, and long-term sustainability. From capital adequacy and liquidity management to digital risk mitigation and stress testing, a range of practical dimensions is examined. Moreover, the growing role of technological innovation and regulatory supervision in shaping financial stability strategies is analyzed. By identifying best practices and real-world applications, this study aims to provide actionable insights for banks, regulators, and policymakers in building a more secure and adaptable banking system in a rapidly changing economic landscape.

2. Literature review

To date, the issues of bank management and its improvement have been widely studied by domestic and CIS economists. The principles of management in the activities of commercial banks and the directions of their development were developed by V.M. Usoskin [1], D.J. Siynki [2], Y.F. Zhukova [3], U. Koch Timoti [4], I.V. Larionova [5], E. Rid [6], Y.A. Malenkov [7] were reflected in the research of leading foreign scientists.

Among the Uzbek scientists, B.T. Berdiyarov [8], V.A. Kotov, I.L. Butikov, N.Kh. Jumaev, O.B. Sattarov [9], O.Q. Abdurakhmanov, R.T. Tursunov, R.R. Tojiev [10] covered the theoretical and practical aspects of the activities, tasks and development of commercial banks. Also, the issues of applying bank marketing and financial management to the management

process were discussed by A.Sh. Bekmurodov, B.Z. Mustafaev [11], B.K. Mirzamaydinov [12], M. Nasritdinova, M.M. Abdurakhmanova [13] has been reflected in the research of scientists such as.

Nevertheless, the financial stability of commercial banks in the context of globalization has not been studied in depth enough. This scientific research requires the development of theoretical views, methodological approaches and practical recommendations on these issues.

3. Analysis and results

Based on the resolutions of the President of the Republic of Uzbekistan dated September 14, 2023 “On measures to provide financial and institutional support for the development of small businesses” and “On additional measures to widely involve the population in small and medium-sized businesses” dated November 15, a unified system for financial support of small and medium-sized businesses and the formation of entrepreneurial skills was introduced. In order to use the experience of developed countries in this process, the Bank attracted international experts from the European Bank for Reconstruction and Development, the Asian Development Bank and KPMG. As of January 1, 2024, the total capital of the bank amounted to 3 trillion 180.2 billion soums, and the authorized capital was 1 trillion 856.8 billion soums. The volume of assets reached 27 trillion 62.9 billion soums. Deposits amounted to 9 trillion 418.7 billion soums, an increase of 6.7%, of which 1.3 trillion soums were short-term and 8.1 trillion soums were long-term deposits.

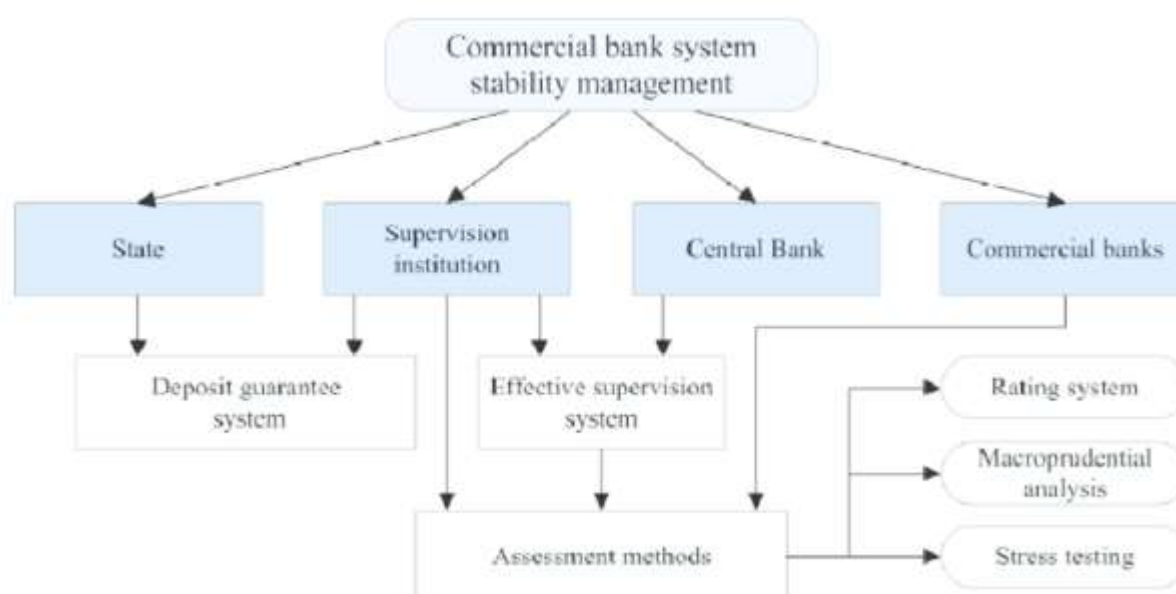


Fig.1. Schematic depiction of the commercial bank system stability management
[14]

The presented scheme illustrates the structural framework for managing the stability of the commercial banking system, emphasizing the interconnected roles of various institutions and assessment mechanisms. At the core lies the commercial bank system stability management, which integrates efforts from four key actors: the State, Supervision Institutions, the Central Bank, and the Commercial Banks themselves.

The State contributes through the implementation of a deposit guarantee system, which helps protect depositors and reduce the risk of panic-driven withdrawals. Supervision institutions play a vital role by ensuring an effective supervision system that enforces compliance with regulatory standards and risk management practices. The Central Bank also contributes to supervision and macroeconomic oversight, coordinating closely with both supervisory bodies and commercial banks.

Commercial banks are directly involved in the operational aspects of stability and are responsible for implementing rating systems, conducting macroprudential analyses, and performing stress testing to identify vulnerabilities under different economic scenarios. These actions feed into broader assessment methods, which serve as a central evaluation platform to monitor the overall health of the banking system.

In essence, the diagram underscores a multi-level and integrated approach to financial stability, where coordination among government, regulatory, and banking institutions ensures proactive risk management and systemic resilience. During the reporting period, the bank received 3.7 trillion soums in income and 236 billion soums in net profit. The share of loans to the population in the loan portfolio is increasing. This is explained by the increase in the volume of microloans, mortgages and car loans as a result of the simplification of loan allocation processes and the expansion of remote banking services.

In 2023, the balance of loans allocated to sectors of the economy increased in all sectors. In particular, in industry, with an increase of 10.7%, it amounted to 140.2 trillion soums, in agriculture - 12.3% (47.3 trillion soums), in transport and communications - 15.7% (34.3 trillion soums), in construction - 18% (12.3 trillion soums), and in trade and catering - 12.5% (32.5 trillion soums).

The share of private investment in supporting the economy was also significant. In 2023, the total volume of investments increased by 22.1% compared to 2022 and amounted to 352.1 trillion soums. Of these, decentralized investments increased by 26.2% to 307.3 trillion soums, while centralized investments decreased by 0.7% to 44.8 trillion soums.

In 2023, the share of decentralized sources in the structure of investments increased from 84.6% to 87.3%, while centralized investments decreased from 15.4% to 12.7%. This was formed, first of all, due to a 2-fold increase in foreign direct investments, a 17.9% increase in loans and other borrowed funds from commercial banks, and a 9% increase in funds from the population. Although the volume of centralized investments remained almost at the same level as last year, foreign loans under government guarantees increased by 1.3 times.

In particular, these include strengthening the investment activity of commercial banks, further expanding the participation of commercial banks in financing investment projects, improving the project appraisal and risk assessment system, ensuring the continuous growth and improvement of the quality of the credit portfolio of commercial banks by taking preventive measures to prevent the formation of problem loans; creating stabilization reserves in the capital of commercial banks that ensure their stability to the effects of crisis situations; improving the requirements for capital adequacy, and introducing new proposals of the Basel Committee into the banking supervision system, which provide for the formation of reserves to cover possible losses. Another important trend in the development of the banking system of our country is the gradual increase in the requirements for the authorized capital of commercial banks.

The table data shows that the share of authorized capital in the capital base of commercial banks of the republic has increased. As of January 1, 2015, it increased by 22.2 percentage points and reached 35.7 percent. Considering that authorized capital is a stable part of regulatory capital, this is a positive situation. At the same time, the share of reserve capital has decreased, and the high level of the devaluation reserve in its composition may be a negative factor for the quality of capital, since according to Basel requirements it is not included in Tier I capital. The traditional regulatory concept is aimed at ensuring the stability of banks, primarily through prudential requirements for capital (and liquidity in times of crisis). The overall stability of the banking system depends on the strength of individual “protective cushions” of commercial banks. At the moment, securitization of assets is not used in the practice of our

country, that is, securities issued as collateral for loans cannot serve as the basis for new loans. This serves to ensure a balance between the real sector and the financial sector.

Table 1 Information on the main indicators of the activities of commercial banks as of January 1, 2022 (by bank) [14]

№	Bank`s name	Aktiv		Kredit		Kapital		Depozit	
		Sum	share, in percent	Sum	share, in percent	Sum	share, in percent	sum	share, in percent
1	Uzmilliybank	89 919	20,2%	74 033	22,7%	14 769	20,8%	22 083	14,1%
2	O'zsanoatqurilishbank	56 511	12,7%	43 148	13,2%	7 701	10,9%	12 607	8,1%
3	Asaka bank	50 804	11,4%	37 685	11,5%	6 505	9,2%	10 729	6,9%
4	Ipoteka-bank	40 012	9,0%	29 046	8,9%	5 087	7,2%	15 824	10,1%
5	Agrobank	39 971	9,0%	32 258	9,9%	9 346	13,2%	11 839	7,6%
6	Xalq banki	26 921	6,1%	19 596	6,0%	5 480	7,7%	11 649	7,5%
7	Qishloq qurilish bank	20 708	4,7%	17 496	5,4%	2 696	3,8%	6 492	4,2%
8	Mikrokreditbank	13 483	3,0%	10 816	3,3%	2 321	3,3%	3 154	2,0%
9	Aloqa bank	12 638	2,8%	7 754	2,4%	1 674	2,4%	6 796	4,4%

10	Turon bank	11 010	2,5%	8 129	2,5%	1 915	2,7%	2 838	1,8%
11	Poytaxt bank	373	0,1%	80	0,02%	135	0,2%	235	0,2%
12	O`zagroeksportbank	69	0,02%	30	0,01%	67	0,1%	1	0,0%
Other banks		82 501	19%	46 312	14%	13 222	19%	51 942	33%

These measures ensured the stability of the banking system, made it possible to provide full-scale services to economic entities, and strengthened the public's confidence in the banking system. If in the pre-crisis period, increasing bank capitalization was set as a priority, today this policy has fully justified itself. As a result of consistent reforms, a stable banking system has been formed, and new international standards do not pose serious problems for the republic's banks.

As of January 1, 2024, deposits in liabilities amounted to 44 percent, attracted loans to 40 percent, funds received from other banks to 8 percent, securities to 2 percent, subordinated loans and other liabilities to 6 percent. In 2023, population deposits as a part of deposits attracted by commercial banks increased by 37 percent and reached 86 trillion soums. Deposits in the national currency increased by 45%, their share increased from 63% to 66%. At the same time, the share of demand deposits decreased from 43% to 35%, the share of short-term deposits increased from 26% to 29%, and the share of long-term deposits increased from 31% to 35%. In 2023, the volume of foreign loans directly attracted by commercial banks increased by 2.1 times, reaching \$ 4.3 billion. Of this, short-term loans accounted for 34%, or \$ 1.5 billion. In 2023, loans worth 53.7 trillion soums were provided to more than 39 thousand projects in the trade and service sectors. At the same time, the alignment of corporate governance and risk management in commercial banks with international standards has become an urgent issue. Effective management of bank risks, ensuring liquidity, and protecting the interests of shareholders are strengthening their stability.

4.Conclusions

The banking system of Uzbekistan is formed in accordance with international practice, and the inter-sectoral distribution of monetary capital is carried out through commercial banks. Monetary policy is aimed at regulating the volume of production, prices and money supply in order to increase employment and curb inflation. In conditions of economic decline, the money supply is expanded, and during inflation it is reduced.

Monetary policy also includes regulating the activities of commercial banks: ensuring the liquidity of banks, limiting the monopoly over financial resources and preventing the accumulation of capital in a small number of institutions. The Central Bank regulates liquidity in the banking system through open market operations, attracting free funds to special deposits and securities. The required reserve ratio is determined based on the financial stability of banks.

Based on national experience, it is proposed to transfer the required reserve mechanism to an incentive form. In particular, if the Central Bank makes interest payments to commercial banks on their reserve funds, this encourages them to work more actively.

In conclusion, the successful implementation of monetary policy contributes to the deepening of market relations in the credit system, the stability of the national currency, economic growth, and the convergence of the banking system with international standards. Strengthening the liquidity and solvency of commercial banks is an important guarantee of the country's economic stability and development.

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