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Research Article

THEORETICAL BASIS OF MANAGEMENT OF THE FINANCIAL STABILITY OF THE BANKING SYSTEM

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ABSTRACT

The continuous development of the banking system in our republic is an objective necessity in the conditions of market relations, which, in turn, requires the improvement of the methodological foundations of the creation of the database necessary for the continuous control of the activity and financial stability of commercial banks and their effective management.

KEYWORDS

Banking system, financial stability, state, control, money, capital, financial system, review of financial stability.

INTRODUCTION

In modern conditions, the task of ensuring the interests of its shareholders, employees, depositors and creditors and at the same time fulfilling the requirements set by the state control bodies in relation to banking policy, as well as credit and investment operations, creates certain difficulties for banks. he says. Due to the increase in the number of banking organizations in recent years, they are forced to enter the local and global money and capital markets. In many cases, even the growth of deposits attracted from the local market cannot fully satisfy the demand of customers for loans and new services. Access to the capital and money market to attract funds

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requires a thorough study of bank statements by investors and the public. This requires the management of the bank to intensify their work towards achieving the set goals. As a result of the implementation of such measures, commercial banks achieve effective management of their financial stability.

Financial stability is the ability of the financial system, i.e. financial institutions, markets and market infrastructures, to withstand possible shocks and imbalances, while reducing the probability of failure to perform financial intermediation functions. The goal of financial stability is to ensure the stability of the entire financial system, not individual financial institutions. Financial stability is the basis of sustainable economic development.

The financial system is considered stable only when banks, other credit organizations and financial markets do not allow households and business entities to suddenly slow down the functioning system, and can provide the necessary financial investments for their participation in the economy and its growth. In an otherwise unstable system, economic shocks can adversely affect the real economy, derail lending and lead to greater than expected risk, reduced employment, and dampened economic activity.

In the conditions of financial instability, the financial system cannot provide the necessary financial services for the economy. For example, difficulties in a large financial institution can cause financial instability. In addition, problems in one institution can spread to other organizations of the system that are closely interconnected due to interbank transactions. The collective activity of institutions can create a risk for the entire financial system, that is, a systemic risk, which can lead to financial instability of an individual organization that seems to be reliable.

Financial stability and its analysis is one of the main tasks of central banks and regulatory bodies of the financial system. Since the banking sector is the most important link of the financial system of Uzbekistan, ensuring its stability is one of the main tasks of the Central Bank of the Republic of Uzbekistan. The Central Bank monitors and evaluates changes in the banking system, as well as takes measures to reduce the accumulation of systemic risks and ensure the stability of the banking system. The Central Bank publishes a financial stability review twice a year, which analyzes and assesses the stability of the banking system, macroeconomic vulnerabilities and risks. The main goal of publishing this review is to increase public awareness and transparency and accountability of the Central Bank in this area.

The history of scientific research on financial stability covers more than 1 century. Oliver M. W. Sprague, Assistant Professor of the Faculty of Banking and Finance of Harvard University, was the first to analyze the stability of banks in his monograph. The main focus of the monograph is on the methods of formation of depositors' trust and its consequences when this problem is not given sufficient attention; was focused on quality indicators and methods of gaining depositors' trust. In general, such methods are variable in

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nature, which means that it is somewhat difficult to develop a predetermined plan and methods in this regard. Nevertheless, over the past century, several methods and criteria have been developed in the science of financial stability management, and their advanced computer-based methods have been widely used in the last several decades.

According to Prof. O. Lavrushin, when assessing the financial stability of commercial banks, the main attention should be focused on grouping and structural analysis, only then it is possible to make a realistic assessment of the level and stability of the profit obtained from each group of operations [1].

We fully agree with this conclusion of O. Lavrushin, and in addition, the method of comparative analysis plays an important role in assessing the financial stability of commercial banks. We believe that it is appropriate to perform a comparative analysis with other banks.

It can be seen in the results of the research on financial stability assessment methods of the European Central Bank and the Bank of International Accounts, which are regularly issued, that the management methodology of stability focuses on macroeconomic indicators.

The ECB (European Central Bank) divides financial stability analysis tools into 3 groups:

- to identify the sources of network outages
- assessment of potential costs to the real economy in severe financial stress
- fragility of the network of financial institutions

Also, in the minutes of the Irving Fisher Committee, the measures developed by central banks, the single general measures, in creating the criteria for assessing financial stability are mentioned in detail. According to it, economic sectors are divided into 6 groups depending on their nature:

1. Real sector (Industry)
2. Corporate network riskiness
3. Health of the household network
4. External sector
5. Financial sector
6. Financial markets

According to the definition given on the website of the World Bank, financial stability is the flexibility and resilience of the financial system to financial stress. Financial instability can lead to serious consequences such as bank failures, hyperinflation or stock market crashes.

As mentioned above, there are several methods of measuring stability, including z-score method, Merton model (asset value model), KMV model, the distance to default (The Distance to Default) and others.

For example, the z-score method. In this method, capitalization and risk (capital default) are compared in order to determine the bank's solvency risk. That is:

$$z \equiv (k+\mu)/\sigma$$

In this,

k - capital, in the form of a percentage of assets μ - return, in the form of a percentage of assets;

σ -is the standard deviation of the return on assets, in the form of the failure rate;

In our country, a number of decisions have been developed in this regard, and necessary grounds have been created for commercial banks to properly resolve this issue.

Decree №. PF-5992 dated 12.05.2020 of the President of the Republic of Uzbekistan was developed. According to it, it is envisaged "...to develop detailed requirements for a reliable system of stress tests in banks, to use its results in planning the adequacy indicators of banks' capital and liquidity". At the same time, the decree stipulates the following:

The financial stability and durability of the banking sector is the main condition for the successful implementation of the planned reforms and strengthening the trust of business and the population in the national banking system.

In order to achieve the strategic goals of increasing the financial stability of the banking sector, it is planned to implement the following measures:

1) ensuring the moderation of lending growth rates and improving the quality of the loan portfolio;

2) improvement of banking sector control and implementation of a modern system of risk management in banks;

3) ensuring mutual reform of the banking system and enterprises with a state share in the real sector of the economy, active participation by banks in the transformation of the activities of state enterprises and organizations on a commercial basis, changes in the real sector and the financial sector in a harmonious manner ensure passage;

4) increase the minimum requirements for banks' capital, including taking into account the accession of the Republic of Uzbekistan to international economic organizations and the integration of the republic's banking system into the international financial system;

5) consistent development of the deposit protection system based on the best international experience.

Within the framework of the indicated measures, the following will serve to strengthen the financial stability of banks:

- the implementation of comprehensive measures to increase the efficiency of management of enterprises with a state share, including the development of the most optimal methods of management, financial stability and privatization of these enterprises;
- conducting an independent assessment of the quality of the assets of banks with a state share and taking measures to improve the quality of their credit portfolios, including through practical assistance to non-performing loans;

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- activity of credit bureaus, including the development of their databases by integrating them with the information systems of the housing and communal economy complex, tax and pension systems;
- international integration of the financial sector based on the principles of introducing advanced international standards in banking, including corporate management and customer service;
- improvement of the legislation in the fields of out-of-court settlement of disputes, bankruptcy, enforcement and other measures of legal protection of banks against dishonest actions of debtors.

When we talk about financial stability management methods, we need to think about what causes financial instability, that is, financial stability risks. Because if there is no risk of financial instability, there is no need to manage it. So, we are not talking about financial stability, but rather how to effectively manage its risks.

Two main approaches to financial instability have been recognized for several years. These are: ―cyclical (periodic) and ―monetaristic approaches.

According to Hyman Minsky and Charles Kindleberger, the problem starts with rising asset prices. This is known as a cyclical event. An increase in prices does not mean that this trend will continue later, but with this thought, the purchase of assets in the market will increase (in the literature, this situation is called the "bandwagon effect"). But after some time, as a result of an external influence, prices will drop sharply. This has a major impact on financial institutions, such as banks, that build their assets mainly on borrowed funds.

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