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ECONOMIC MECHANISMS FOR ASSESSING THE FINANCIAL STABILITY OF COMMERCIAL BANKS

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Abstract: This article examines the theoretical and methodological foundations as well as the practical economic mechanisms for assessing the financial stability of commercial banks. The stable functioning of the banking system is an important factor in ensuring the country's economic development, financial security, and the attractiveness of the investment environment. The study also highlights the significance of the CAMELS rating system, Basel standards, and modern financial indicators widely used in international banking practice. Furthermore, the article evaluates the banking reforms implemented in Uzbekistan and their impact on the financial stability of commercial banks. Based on the findings, scientifically grounded recommendations and proposals have been developed to address existing challenges and improve the financial stability of the banking sector.

Keywords: Commercial banks, financial stability, banking system, capital adequacy, liquidity, asset quality, profitability, banking risks, CAMELS system, Basel standards, financial monitoring.

Introduction

In the context of globalization of the world economy, integration of financial markets, and the rapid development of digital technologies, ensuring the financial stability of commercial banks has become one of the priority directions of economic policy. The banking system is a key component of the country's financial sector, playing a crucial role in financing the real sector of the economy, stimulating investment activity, and ensuring the effective implementation of monetary policy. Therefore, assessing the financial stability of commercial banks and improving the mechanisms for strengthening it have become important scientific and practical issues.

In recent years, as a result of large-scale reforms implemented in Uzbekistan's banking sector, the financial capacity of banks has increased significantly. According to the data of the Central Bank of Uzbekistan, as of August 1, 2025, the total assets of commercial banks amounted to 852.4 trillion UZS, the loan portfolio reached 576.2 trillion UZS, total capital amounted to 127 trillion UZS, and deposits reached 360.4 trillion UZS. These indicators demonstrate the growing role of the banking sector in the economy and the increasing level of financial intermediation. By the end of 2025, Uzbekistan's banking system maintained stable growth rates. The total assets of commercial banks reached 892.9 trillion UZS, deposit volumes increased by 31 percent, and net profit amounted to 13.5 trillion UZS. At the same time, the share of non-performing loans (NPLs) decreased to 3.5 percent, indicating an improvement in the effectiveness of risk management systems within the banking sector.

According to the statistical data of the Central Bank, as of October 1, 2025, the total assets of commercial banks reached 866.8 trillion UZS, deposits amounted to 371.5 trillion UZS, and total capital reached 130.4 trillion UZS. The 29 percent annual growth in deposits reflects the increasing

confidence of households and business entities in the banking system. However, the banking sector still faces a number of challenges related to asset quality, credit risks, liquidity management, capital adequacy, and digital transformation. In particular, state-owned banks control approximately 65 percent of the sector's total assets, highlighting the need to further enhance competition within the banking system. In international practice, the financial stability of commercial banks is assessed using various indicators and frameworks, including the CAMELS rating system, Basel III standards, capital adequacy ratios, the Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR), Return on Assets (ROA), and Return on Equity (ROE). These indicators enable a comprehensive assessment of banks' financial conditions, facilitate the identification of existing risks, and support the forecasting of future development prospects.

Theoretical Foundations of the Financial Stability of Commercial Banks and Economic Mechanisms for Its Assessment. In a market economy, the financial stability of commercial banks is considered one of the key factors ensuring the continuous functioning of a country's financial system. Financial stability refers to a bank's ability to withstand risks arising from both internal and external economic factors, fulfill its obligations fully and on time, and operate profitably in the long term. A financially stable bank not only ensures its own financial security but also contributes positively to the reliability of the entire banking system and the sustainable development of the economy. The issue of assessing the financial stability of banks has been extensively studied in economic literature. In particular, economists such as F. Mishkin, P. Rose, T. Koch, J. Sinkey, and others identify capital adequacy, asset quality, liquidity, profitability, and the effectiveness of risk management as the primary indicators of financial stability. According to their views, maintaining a balanced level of these indicators ensures the safety and stability of banking operations. The system of economic mechanisms plays a crucial role in assessing financial stability. These mechanisms make it possible to comprehensively analyze a bank's financial performance, identify risks, and manage them effectively. In modern banking practice, the following economic mechanisms are widely used to assess financial stability.

Capital Adequacy Assessment Mechanism. Capital serves as the financial foundation of banking operations. The adequacy of a bank's capital determines its ability to absorb unexpected financial losses. In international practice, capital adequacy is assessed based on Basel III standards. According to these standards, the ratio of bank capital to risk-weighted assets is recognized as a key indicator. A high capital adequacy ratio strengthens a bank's financial stability and increases the confidence of investors and depositors. Conversely, a decline in capital levels may lead to increased credit risks and liquidity problems. Therefore, commercial banks must continuously strengthen their capital base and maintain regular monitoring of capital quality. Asset Quality and Loan Portfolio Assessment Mechanism. Loans constitute the largest share of bank assets. Therefore, asset quality is one of the most important indicators of financial stability. Asset quality is assessed through the structure of the loan portfolio, the level of non-performing loans, and the overall condition of credit risks. An increase in non-performing loans negatively affects a bank's profitability and weakens its capital adequacy. Consequently, diversification of loan portfolios, thorough assessment of borrowers' creditworthiness, and the application of modern credit-scoring systems are essential for ensuring financial stability. In recent years, measures aimed at improving the quality of loan portfolios in Uzbekistan's commercial banks have significantly reduced the share of non-performing loans, thereby contributing to the overall improvement of the banking sector's financial condition.

Liquidity Management Mechanism. Liquidity reflects a bank's ability to meet its short-term obligations on time. Banks with insufficient liquidity may face serious financial difficulties. Therefore, commercial banks must continuously monitor the volume of their liquid assets. Bank liquidity is commonly assessed using indicators such as the current liquidity ratio, the ratio of liquid assets to total assets, and internationally recognized measures including the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

Effective liquidity management not only enhances the financial security of banks but also expands their capacity to provide credit to the real sector of the economy. The reforms being implemented to transform Uzbekistan's banking sector are aimed at enhancing the financial stability of commercial banks. In particular, bank privatization, the introduction of corporate governance standards, the expansion of digital technologies, and the adoption of International Financial Reporting Standards (IFRS) are among the most important areas of this transformation.

Conclusion

In conclusion, the findings of the study indicate that the financial stability of commercial banks is a crucial prerequisite for the continuous functioning of the banking system, financing the real sector of the economy, and ensuring the country's financial security. In the modern economic environment, where banking activities are exposed to various financial and non-financial risks, the regular assessment of financial stability has become an issue of significant importance. The analysis revealed that the transformation processes taking place in Uzbekistan’s banking sector, including digitalization policies, improvements in corporate governance systems, and the implementation of international standards, have had a positive impact on strengthening the financial position of commercial banks. At the same time, there remains a need for additional measures aimed at improving loan portfolio quality, reducing the share of non-performing loans, strengthening the capital base, and further developing risk management systems. The widespread application of the CAMELS rating system, Basel III standards, and modern prudential supervision mechanisms in international practice provides effective tools for evaluating the performance and financial condition of commercial banks. The broader implementation of these instruments within the national banking system will contribute to enhancing the financial stability of banks. Overall, improving the economic mechanisms for assessing the financial stability of commercial banks will support the sustainable development of the banking system, strengthen the confidence of investors and depositors, and contribute to the long-term growth of thenationaleconomy.

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