

ECONOMIC FOUNDATIONS AND FACTORS OF BANKING SYSTEM STABILITY UNDER CONDITIONS OF ECONOMIC INSTABILITY

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Abstract

This article discusses the current challenges facing the banking system during periods of economic instability. Economic crises, financial difficulties and global changes create unique conditions for banks, requiring effective strategies and resilience measures. This article analyzes the impact of economic instability on the banking system, identifies the key factors determining the sustainability of banks, and offers practical recommendations to improve its level.

Keywords: banking system, stability, factors, economic instability, financial crises, macroeconomic factors, banking system risks, stabilization measures, strengthening strategies.

INTRODUCTION

With the constant evolution of the global economy, the banking system remains a key element of the financial system, playing a significant role in ensuring the stability and sustainability of national and global finances. However, today's economic realities often

stress-test the banking system, creating challenges that require in-depth understanding, strategic planning and effective risk management.

The topic of banking system resilience in the face of economic instability has become increasingly relevant given the frequent fluctuations in financial markets, changes in global trade and uncertainty caused by external factors. The financial and economic crisis of 2008 serves as a clear example of how instability can significantly affect the banking system, generating serious consequences for the economy as a whole.

In this context, this research paper is an attempt to analyze the factors affecting the sustainability of the banking system under conditions of economic instability. The study involves identifying the main challenges faced by banks in times of uncertainty and developing effective risk management strategies to strengthen their resilience. Based on a thorough analysis of macroeconomic factors, the authors seek to offer practical recommendations that can be utilized by banks in the quest for stability in a volatile economic environment.

The purpose of this study is to analyze the factors affecting the stability of the banking system during periods of economic instability.

In order to achieve this goal, the following objectives are defined in this study:

- To study the main factors of economic instability.
- Analyzing the impact of economic instability on the banking system.
- Formulation of strategies and measures that contribute to the resilience of banks in conditions of instability.

The object of the study is the banking system in different countries.

The subject of the study is the sustainability of the banking system in conditions of international economic instability

The authors used methods of observation, comparative analysis and systematization of data within the framework of the research.

The scientific novelty of the study lies in determining the impact of events and challenges in international economic relations on the banking system, its ability to adapt to changing economic dynamics, as well as analyzing the impact of technological innovations such as blockchain, artificial intelligence, digital currencies on the structure and stability of the banking system.

The outcomes of the ongoing research are used to develop and propose specific risk management strategies for the banking system based on the identified factors of economic instability. Examples may include improved credit scoring techniques, portfolio diversification, and increased liquidity.

Content of the main statements of the study

Sustainable development of the economy, including its most important link - the banking system - is becoming a key problem of the modern world. Instability of national economies, uneven economic development of individual states, fueled by speculation of banks, leads not only to national banking crises, the latter are becoming a part of global financial turmoil.

As is known, sustainable economic development is a process in time and space. Transition to the model of sustainable development implies an efficient economy that uses a minimum of resources to obtain a unit of result. And such efficiency should be ensured, on the one hand, by market structures and, on the other hand, by strict regulation of these processes by the state and society. Sustainable development of the economy requires that its various components - financial institutions, markets and infrastructure - be able to take on unfavorable external impulses by interacting.

Thus, the sustainability of the banking system is a complex characteristic. From the point of view of methodology, it means that the management of credit organizations' sustainability should be considered in the unity of three interrelationships:

- 1) in close unity with the sustainability of the economy as a whole and its regional segments;
- 2) in the relationship between the sustainability of an individual bank and the sustainability of the banking system as an integral entity;
- 3) from the position of an individual bank, its structure made up of certain parts.

Thus, sustainability is a macroeconomic characteristic of both the whole banking system and an individual bank as a constituent element of this system. It should be noted that sustainability is one of the main dynamic characteristics of the economic system, which is the property of returning to the equilibrium, initial or close to it established mode after leaving it as a result of any impact¹.

Obviously, there are various multidirectional forces inside and outside the banking system that undermine stability. The problem is to avoid instability, so often manifested in the work of banks and on the basis of historical and modern experience to create an acceptable alternative model of the banking system and the commercial bank separately, capable of resisting those negative processes that sometimes take place in the modern financial world². If a commercial bank is financially stable, it has competitive advantages over other commercial banks, which is expressed in attracting additional resources, dominance in one or another market segment, increase in deposits of the population as the main source of banking resources and, accordingly, in expanding the scope of investment, the ability to develop new non-traditional types of services and so on. In addition, a financially stable bank creates a favorable external environment, i.e. it does not enter into conflict relations with the state and society, as it pays taxes to the budget and extra-budgetary funds, wages to workers and employees, dividends to shareholders, returns borrowed funds to its creditors on time and in full.

The authors' study of the impact of general economic conditions and monetary policy of the state and the state of the banking system at the state and regional levels allows us to conclude that the totality of commercial banks is, on the one hand, an independent organic part of the entire reproduction system, on the other hand, it is a component of the banking system as a whole. At the same time, its specific feature is that its interrelation with other parts of the

¹ Ilyasov S.M. On the essence and main factors of banking system stability // Money and Credit. - 2006. - №2.

² Banking system in the modern economy / edited by Prof. O. I. Lavrushin. - M . Knorus, 2011

economic system is of a nature that allows banks to act successfully for some time and ensure their interests outside the strict interrelation with the interests of other economic entities and even in spite of them.

On the other hand, also during a certain period of time the trends of changes in certain macro parameters of the economy development may run counter to the trends of the banking system development. However, when a certain level of qualitative changes (both positive and negative) in the economy is reached, the development trajectory of the banking system invariably begins to go in the same direction as the development trajectory of the economy as a whole. Thus, the methodology of sustainable development of the banking system of the country as a whole and its regional banking systems should be based on the category of conjugation of the directions of its development with the directions of socio-economic development of the country as a whole and regions in particular.

Within the framework of the topic under study it seems possible to emphasize the main directions of adjustment of the methodological apparatus for ensuring the sustainability of the banking system.

1. It is necessary to distinguish between the principles of ensuring the sustainability of the entire banking system and the principles of ensuring the sustainability of a particular bank. This is due to the fact that the parameters of stability and the reaction of the banking system as a whole (at the state or regional levels) and of an individual bank to external influences may be qualitatively different.
2. In each country, the problems of banking system sustainability should be considered and solved only in the context of sustainability of the socio-economic system as a whole. Consequently, it is necessary to include the directions of the banking system sustainability improvement into the general program of the national economy development.
3. In the process of banking system management it is important to take as a basis that the banking system is a full-fledged part of the economy at the state or regional levels, which provides the necessary integration of all spheres of the economy and economic growth.
4. Ensuring the quality of banking services, i.e. the ability of the whole system and an individual bank to perform a necessary and sufficient set of services at a certain level, satisfying the needs of the real economy and the population in banking products, should be considered as the basic principle for increasing the sustainability of the banking system.
5. It is necessary to clearly distinguish between the actual stability of the banking system and the state of its unstable equilibrium.

Achieving real sustainability of the banking system implies the creation of sustainability conditions:

- a) satisfaction of the absolute majority of credit organizations with the existing state of the institutional environment;
- b) reasonable limitation of transition of elements from one state to another (for example, from active to passive), which ensures flexibility of the banking system at all levels of management and interest of all participants in the final results;

- c) sufficiency of regulators' (Central Banks) means and methods of control over unstable credit organizations and tools to influence their activities;
- d) availability of common goals that create conditions for ensuring interaction of all elements of the banking system;
- e) availability of protective mechanisms for the banking system as a whole and for an individual bank to regulate its activity.

Taking into account the above-mentioned, a comprehensive study of the economic foundations and factors of banking system stability is currently very important.

Financial factors that determine the state and development of the financial market have a significant impact on the sustainability of the banking system. The state of the financial market can be determined by such factors as: money issue, growth of household income, inflation rate, interest on short-term loans, changes in government regulation in the foreign economic and currency environment, gold and foreign exchange reserves of the country, the volume of the country's foreign debt, the state and prospect of development of the stock market and others. One of the important factors characterizing the state of the financial market is the development of the stock market³.

Legal factors, including forms and methods of legal regulation of banking activities, have a significant impact on the sustainability of the banking sector. Sustainable legislation creates conditions for normal legal regulation of arising problems. In addition, legislation has a great influence on the development of the banking system by special rules regulating various banking operations or transactions⁴.

Socio-psychological factors determine economic, financial, legal and foreign policy factors. In particular, socio-psychological factors include: confidence of the population in the correct implementation of economic reforms, in stable tax, customs and currency legislation in the future. All the above-mentioned together form the level of confidence in domestic commercial banks, readiness to perform banking operations and use banking services.

Force majeure factors also affect the stability of commercial banks. These include natural disasters and unpredictable events that disrupt the activities of banks.

Force majeure factors are categorized into:

- economic
- natural
- foreign policy.

Economic factors include: refusal of the government of a particular country to fulfill its financial obligations, changes in tax rates, crises in the financial market.

Natural factors include: floods, earthquakes, hurricanes, etc.

Foreign policy factors include: closing of borders, various restrictions in international economic relations, armed conflicts.

³ Fetisov G.G. Stability of commercial bank and rating systems of its assessment. M., 1999.

⁴ Nemchinova Y.V. The essence of financial stability of the banking system and factors of its provision at the present stage, Stavropol: NOU VPO "SevKavGTI", 2012.

In case of relatively stable socio-economic, political situation and financial market, absence of force-majeure circumstances, internal factors play an important role in the activity of the banking system. The internal factor is understood as a set of factors that are formed by commercial banks themselves.

Internal factors of commercial banks sustainability are divided into three independent groups:

1. organizational;
2. technological;
3. financial and economic.

Organizational factors of commercial banks stability include: bank strategy, management level, personnel qualification, internal policy of the bank.

Technological factors include the direction of the bank to the development of modern banking technologies, the needs of the market in new banking products.

The modern situation poses such problems to banks that cannot be solved without extensive and comprehensive application of the latest computer and telecommunication technology. Automation has deeply affected traditional banking services. The information type of economic development has made investment in information and computer technology, a fundamental component of the growth, development of the banks themselves. The use of new technologies has greatly improved the quality of banking services, banks have been given the opportunity to analyze and provide forecasts on various financial and general economic issues, to provide advice. ATMs, terminals in shopping centers, "Client-Bank" systems, plastic cards, and the Internet have made a significant step in modernizing banking operations. Thus, computer and telecommunication technology of banks is an important factor in accelerating the adaptation of the banking system to international requirements.

Financial and economic factors affecting the sustainability of banks include: the volume and structure of equity capital, the degree of income and profit, liquidity adequacy, resource inflows and their effective allocation⁵.

Granted external and internal factors are capable of influencing the sustainability of the banking sector. It is individual and depends on the organizational structure and the content of work of each individual bank. In addition, we should not lose sight of the fact that in the current conditions of economic development, a great influence on the sustainability of banks is mainly external factors that do not depend on the activities of the banks themselves. Therefore, commercial banks should not neglect the impact of within-bank factors, improving their quality, which ultimately affects the sustainability of banks.

For the banking system to be active, the following important problems must be solved:

- concentrate banking capital;
- to form a banking infrastructure;
- create conditions for equal competition;
- increase the level and efficiency of asset management;

⁵ Tarkhanova E.A. Sustainability of commercial banks. Tyumen: Vector Book, 2003.

- attract long-term resources by the bank⁶.

Conclusion

In the light of modern challenges and uncertainty in the economic environment, the issues of banking system sustainability take on a special significance.

One of the key findings is that the sustainability of the banking system is directly related to the quality of its regulation and supervision. In conditions of economic instability the role of regulators becomes more significant, requiring not only effective monitoring tools, but also prompt measures to prevent systemic crises. The need to strengthen financial regulation emphasizes the relevance of taking comprehensive measures, including both prevention of potential crises and their resolution in case of their occurrence.

Further, the role of macroeconomic stability turns out to be directly related to the stability of the banking system. Financial institutions are important links in the economic system and their effective functioning depends on the overall economic climate. Thus, maintaining the stability of the banking system requires a concerted effort on the part of government agencies and central banks in macroeconomic policy.

It should be noted that banks' asset quality, liquidity and capitalization levels are fundamental factors affecting sustainability. Effective risk management, asset diversification strategies and ensuring adequate capital levels become cornerstones for a balanced banking system.

In conclusion, the resilience of the banking system under economic instability depends on a set of factors including regulatory quality, macroeconomic stability and financial soundness of banks. Addressing these issues requires the cooperation of all stakeholders, from the government to the banks themselves, and emphasizes the need to continuously monitor and adapt strategies to changing economic conditions.

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⁶ Tavasiev A.M. Banking: Management of Credit Organization. - Textbook. - M, 2007.