INTERNATIONAL CONFERENCE **Dehli, India, 2025**
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THE ROLE OF THE CENTRAL BANK IN ENSURING FINANCIAL STABILITY

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Abstract: This article analyzes the role of the Central Bank of the Republic of Uzbekistan (hereinafter the Central Bank) in ensuring financial stability, its functions as an institution, instruments, and policies. The concept of financial stability is considered a key factor contributing to the country's economic stability, linking the bank with the macroeconomic foundations of financial sector stability. The article discusses macroprudential policy measures implemented in Uzbekistan, the state of the banking system, and associated risks, illustrating the Central Bank’s functions with examples. Methodologically, the study is based on document analysis and a review of existing literature, providing conclusions and practical recommendations based on the current situation in Uzbekistan.

Keywords: financial stability; central bank; macroprudential policy; banking system; financial risks; banking supervision in Uzbekistan.

Introduction: Financial stability is one of the key elements of modern macroeconomic policy and refers to the ability of financial system participants (banks, financial institutions, market infrastructures) to withstand various shocks and imbalances (Central Bank of the Republic of Uzbekistan, 2022). In other words, financial stability ensures that the system can continue performing its functions—lending, accepting deposits, and financial intermediation—without interruption, which is crucial for economic growth and macroeconomic stability (Ismailova, 2022). Central banks are not limited to monetary policy alone; they also play a central role in ensuring financial stability through macroprudential policy (Nordic University article). In Uzbekistan, the Central Bank performs functions such as establishing macroprudential regulations, assessing systemic risks in the banking sector, conducting stress tests, and publishing financial stability reports. Ensuring banking system stability, reducing systemic risks, and monitoring financial markets and credit institutions are pressing challenges. Accordingly, the Central Bank's role—through its institutional structure and policy instruments—is expanding, warranting scholarly analysis. The aim of this article is to analyze the role of the Central Bank in ensuring financial stability in Uzbekistan, examine the mechanisms employed, identify problems, and provide practical recommendations. The article is structured as follows: methodological approach, main section discussing the Central Bank’s role, instruments, and practices; the state of the banking system and risks; macroprudential policy measures; followed by analysis, results, conclusions, and recommendations.

Research methodology: The study employs a qualitative and document-analysis approach. On one hand, official documents published by the Central Bank of Uzbekistan, such as the “Financial Stability Report” (2024) and “Macroprudential Policy Framework,” as well as academic articles on banking supervision and economic stability (Primova, 2023; Ismailova, 2022), were analyzed. On the other hand, literature on the role of central banks in financial stability, macroprudential instruments, and international experiences (Nordic University article) was reviewed. The analysis was adapted to the Uzbek context. The study is limited in two ways: first, available data are mostly restricted to official reports by the Central Bank and commercial banks; second, statistical information may sometimes be incomplete for the most recent periods. Therefore, conclusions presented should be considered as recommendations.

Main part: The Central Bank is a key institution within the economic system. Its functions—monetary policy implementation, liquidity management, exchange rate control, and banking supervision—are directly related to financial stability. For instance, the Central Bank can act as a lender of last resort to financial institutions, protecting the system during liquidity shortages (Nordic University article). In Uzbekistan, the Central Bank defines financial stability as: "The financial system's ability to withstand potential shocks and imbalances…", reflecting its overall perspective on stability. Institutionally, the Central Bank monitors banks, financial infrastructure (markets, payment systems), and establishes regulatory policies to ensure financial stability. Banking supervision regularly evaluates banks' capital, liquidity, credit portfolio quality, and risk management (Ismailova, 2022). Macroprudential policy is a set of tools designed to prevent systemic risks in the financial system and maintain financial stability (Central Bank, Macroprudential Policy Framework). The Central Bank applies instruments such as countercyclical capital buffers, liquidity standards, debt-to-income and interest rate caps, credit concentration limits, stress tests, and measures to reduce interconnectedness among financial institutions (Nordic University article). In Uzbekistan, on April 8, 2025, the Central Bank approved regulations establishing macroprudential norms for banks, including maximum repayment limits for microloans. Macroprudential policy allows the Central Bank to monitor financial conditions, identify risks early, and take appropriate measures. For example, the Central Bank publishes the Financial Stability Report twice a year, assessing banking system stability, macrofinancial vulnerabilities, and risks. The Uzbek banking system has undergone significant changes in recent years. According to the 2024 Financial Stability Report, total and Tier 1 capital adequacy ratios were 17.3% and 14.2%, respectively. Liquidity and stable funding indicators also improved. However, rapid growth in microloans is a concern. For 2024, capital adequacy was around 17%, the liquidity coverage ratio (LCR) reached 194%, and the net stable funding ratio (NSFR) approached 115%. Key risks include rising external financing costs, overvaluation in the housing market, and rapid microloan growth. The Central Bank must detect these risks early and implement measures, as overvalued housing prices may negatively impact credit portfolios and microloan growth increases portfolio risk. Practical functions of the Central Bank include:

1. Supervising banks based on capital, asset quality, liquidity, and other regulatory requirements. Asset composition and non-performing loans are regularly analyzed (Kurbanov, 2025).

2. Conducting stress tests and developing risk scenarios based on results (2023 stress test reports).

3. Implementing macroprudential regulations: debt limits, credit portfolio composition, microloan limits, etc. (2025 regulations).

4. Ensuring transparency and communication: publishing financial stability reports to inform the public.

By performing these functions, the Central Bank fosters financial stability and trust in the financial system. Macroprudential measures and monitoring improve the banking sector's resilience. Capital adequacy and liquidity ratios above minimum requirements strengthen stress resistance and liquidity coverage. Nevertheless, macroprudential policy cannot eliminate all risks; overvaluation in the housing market or rising external financing costs still pose threats, requiring proactive measures. Challenges include limited data availability, regulatory burdens from macroprudential measures, and risks outside the Central Bank's control, such as microloan growth and housing prices. Expanding data collection, integrating macroprudential instruments with internal bank risk management, and applying international best practices (BIS, Basel Committee) are recommended.

Analysis and results: The study shows that the Central Bank's role in ensuring financial stability in Uzbekistan is increasingly effective. Capital adequacy has improved (17% in 2024), liquidity coverage (LCR = 194%) and stable funding (NSFR = 115%) strengthened, demonstrating reduced liquidity risk. Macroprudential regulations, such as repayment limits for microloans, help prevent excessive risks. Financial stability reports improve transparency and inform the public about emerging risks, including microloan growth and housing overvaluation. However, challenges remain: microloan growth (77% increase in H1 2024) raises risks in bank portfolios; housing prices above fundamental values also pose threats. Future measures should include strengthening control over microloans and housing, monitoring interbank interconnectedness, and addressing unconventional risks like climate and technological risks. Coordination between the Central Bank and supervisory authorities, combined with integrated macroprudential and internal risk management, is crucial.

Conclusion: The article highlights the Central Bank's role in ensuring financial stability. Institutionally, the Central Bank contributes through banking supervision, monetary policy, liquidity management, and macroprudential regulations. In Uzbekistan, the Central Bank's practices are progressing positively, with improved capital and liquidity ratios, enhanced monitoring, and greater transparency. However, emerging risks such as microloan growth, housing market overvaluation, and rising external financing costs remain. Recommendations include: expanding data and modernizing analytical systems, integrating macroprudential measures with internal risk management, strengthening supervision of vulnerable market segments, and diversifying policy instruments based on international experience. Future research could quantitatively assess the Central Bank's effectiveness, develop risk models for the banking sector, and analyze unconventional financial risks such as climate change and technological threats.

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