

## MACROECONOMIC SIGNIFICANCE OF RISK-BASED SUPERVISION

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Risk-based banking supervision is an integrated system of requirements and supervisory processes imposed on banks to assess their financial condition and ensure appropriate influence on their economic activities. This concept is primarily intended to systematically assess banks' risks and ensure their stability and reliability.

Risk-based supervision is aimed at maintaining the stability of the banking system and, at the same time, directly impacts the country's overall economic stability.

When assessing banks' risks, one should not rely on a single global or precise application method, but rather take into account their business models, financial resources, and market conditions. Risk-based supervision is carried out according to a set of credit valuation and standardization criteria. It is important to develop a single theoretical framework for assessing banks' risks.

Risk-based banking supervision can influence the proper functioning of the banking system and economic activity. If the banking system is stable, confidence in the economy is further strengthened, which leads to increased investment. Risk-based supervisory systems allow for the accurate and timely assessment of systemic risks present in banks. This helps prevent new banking crises.

Risk-based supervision also helps monitor banks' liquidity positions. It serves to prevent liquidity-related problems and maintain banks' solvency. Bank supervision, especially, affects capital markets, government debt, and international trade. If banks are protected from risks, their operations may experience renewal and growth.

The IMF, World Bank, European Central Bank, and other international financial institutions and scholars have consistently applied risk-based supervision in their programs, and there are examples of major national economies in this regard.

For example, Ben Bernanke paid special attention to the importance of the financial system in maintaining macroeconomic stability. His research analyzed the complex relationships between financial crises, credit provision, and economic growth.

Ben Bernanke, analyzing the 2007–2008 global financial crisis, showed that financial risks that are never supposed to change can nonetheless, at the same time, lead to major economic disruptions. He also stressed that, drawing from this, the banking system needs to be reviewed.

One of Ben Bernanke's most important research projects is his study of the impact of financial crises on the banking system. He believed that banks, their financial condition and liquidity affect inflation, unemployment, and overall economic activity. As a result, maintaining the health of the banking system is a key condition for macroeconomic stability.

During the 2007–2008 financial crisis, Ben Bernanke demonstrated the importance of assessing banks' external and internal risks more accurately and properly. He emphasized that for banks, it is necessary to consider not only financial indicators but also their risk and the impact of external economic events.

During his tenure at the Fed, Ben Bernanke developed numerous innovative economic policies aimed at achieving macroeconomic stability. Among them were quantitative easing, reducing reserve requirements for banks, and cutting interest rates. These policies helped maintain a balance between inflation and deflation.

Under his leadership, the Fed developed effective measures to ensure the proper functioning of the banking system and to combat economic inflation and deflation against various external and internal threats.

Bernanke, believing in the importance of supervisory systems aimed at effectively managing banks' risks to maintain macroeconomic stability, often emphasized the necessity of risk-based supervision. With this in mind, banks should pay special attention to accurately assessing and monitoring their financial condition, risk, and liquidity.

Bernanke has repeatedly examined the relative importance of the banking system in financial crises. In his view, if banks and their risks are properly assessed, their impact on economic activity can be minimized.

Bernanke's work led to changes in the methods used by global financial institutions to assess banks' risks. Significant changes in bank supervision led to a substantial tightening of requirements for banks and spurred efforts to reform risk assessment based on those requirements. For instance, in his research on the Federal Reserve's stability policy, Bernanke aimed to select the appropriate credit policy and assess banks' risk conditions.

If we consider the macroeconomic importance of banking supervision in the Republic of Uzbekistan, the reforms and targeted measures being implemented by the Central Bank serve as an example.

In particular, in the main directions of the Central Bank's monetary credit policy for the 2026 and 2027–2027 periods, the macroprudential measures aimed at further improving the competitive environment in banks' activities in the money credit markets are monetary. The scope of application of macroprudential measures to further improve the competitive environment in banks' activities in the money credit markets was determined based on their impacts on monetary and credit conditions.

At the same time, accelerating the transformation and privatization of state-owned enterprises, reducing the practice of directive and preferential lending, and improving the capital market play an important role in enhancing the effectiveness of monetary policy decisions.

The successful implementation of these structural reforms will enable low and stable inflation and high growth by enhancing the capacity and efficiency of economic sectors.

Also, in order to effectively manage the bank's liquidity and regulate money market interest rates, a number of changes were introduced this year to the Central Bank's monetary policy instruments and operational mechanism.

Including the harmonization of the mandatory reserve requirements instrument with international standards, to enhance its effectiveness and to ensure that interest rates on deposits and other liabilities are formed on an equal basis when commercial banks raise resources, the previously unregulated liabilities of commercial banks are being phased in. - A phased introduction of mandatory reserve requirements for previously unregulated liabilities of commercial banks has begun.

In order to prevent excessive burdens on banks in meeting mandatory reserve requirements as a result of the expected changes, a new calculation for the mandatory reserve requirements on new bank accounts. It is planned to gradually include new bank accounts in the calculation of mandatory reserves over the period 2025-2030, with reserve requirements decreasing proportionally.

Specifically, in April and October of this year, the coverage of the mandatory reserve base with new liabilities was increased to 10 and 15 percent, respectively, and the reserve requirements in

national currency were 4 percent, in foreign currency, were set at 10.5 percent in April and 9.5 percent in October.

At the same time, according to the Central Bank's Financial Stability Review for the first half of 2025, concerns in the corporate sector have eased somewhat. The share of corporate loans in foreign currency has slightly declined. The ratio of corporate loan outstanding to GDP has fallen, widening the negative gap relative to its long-term trend. Positive changes have been observed in the leverage ratio of large enterprises. Additionally, firms' liquidity and profitability indicators have strengthened.

The application of macroprudential measures targeting borrowers, along with the impact of financial conditions, has improved the population's debt burden. The tightening of the debt service to income (DSTI) ratio cap on total loans extended to individuals resulted in a reduction in the overall debt burden of the population from 36 percent to 33 percent. A positive change was observed in mortgages and auto loans, which have a high DSTI.

The share of non-bank liabilities in the total of all population debt obligations remains low. Ninety-three percent of all liabilities of individuals correspond to bank loans. A negative gap has emerged between the current value of the ratio of outstanding loans to individuals to GDP and its long-term trend. Among individuals who have taken out bank loans, the number of those with multiple debt obligations is increasing.

The quality of the microloan credit portfolio has deteriorated. High growth rates in banks' outstanding microloans to individuals persist. The number of borrowers with multiple microloan agreements is increasing. There are concerns about regulatory arbitrage in the auto loan market. The effects of the established indirect limits on auto loans are becoming apparent with a certain lag. Concentration risk in auto lending is declining. However, some banks are creating risks related to regulatory arbitrage by circumventing the existing concentration limits through workaround practices.

The main part of the banking system's assets is accounted for by loans. As of July 1, 2025, total banking system assets had risen to 852.2 trillion soums, with loans making up 65 percent of that. At the same time, the share of funds in other banks in total assets reached 10 percent, and the share of investments and other securities reached 8 percent.

The share of deposits as a source of financing in the operations of banks is increasing. As of the end of the first half of 2025, the share of deposits in the banking system's liabilities stood at 42 percent, up 3 percentage points from the same period in 2024. Additionally, in the banking system, financing sources were composed of loans and capital, accounting for 29% and 15%, respectively. In conclusion, risk-based banking supervision is a key tool aimed at maintaining the stability of banking systems, ensuring financial stability, and providing additional support for economic growth. At the macroeconomic level, its importance lies in reinforcing stability and confidence in any economic process, enabling effective response to economic changes and global financial crises.

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