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CONTENTS

PLATFORM MIDDLEWARE-MANAGEMENT: FROM RESOURCE CONTROL TO INTERACTION COORDINATION IN DIGITAL SERVICE ECOSYSTEMS.....	8
Ilgor Abdullayev	
APPROACHES TO IMPROVING KNOWLEDGE EXCHANGE PROCESSES IN INDUSTRIAL CLUSTERS.....	16
Mamadaliyev Anaxon Ziyodillayevich	
IMPROVING EXPENDITURE ACCOUNTING IN HIGHER EDUCATION INSTITUTIONS	21
Islom Ergash ugli Khonimqulov	
MANAGEMENT OF FOREIGN EXCHANGE AND CONCENTRATION RISKS IN THE OPERATIONS OF COMMERCIAL BANKS	26
Qurbonov Ilhom Jumaqulovich	
WAYS TO IMPROVE THE USE OF NATURAL RESOURCES IN THE DEVELOPMENT OF HEALTH SERVICES.	29
Sobirov Kayum Xamraevich	

MANAGEMENT OF FOREIGN EXCHANGE AND CONCENTRATION RISKS IN THE OPERATIONS OF COMMERCIAL BANKS

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Abstract. The article analyses issues of managing foreign exchange risk and concentration risk in the banking system of the Republic of Uzbekistan. It examines the dynamics of the share of foreign currency in the key indicators of the banking system and major commercial banks. The findings substantiate control values for identifying concentration risk and measures for reducing currency risk.

Keywords: foreign exchange risk, concentration risk, open currency position, hedging, diversification, foreign-currency assets.

Annotatsiya. Maqolada O'zbekiston Respublikasi bank tizimida valyuta va konsentratsiya risklarini boshqarish masalalari tahlil qilingan. Bank tizimi va yirik tijorat banklari asosiy indikatorlarida xorijiy valyutaning ulushi dinamikasi ko'rib chiqilgan. Tadqiqot natijalariga ko'ra, konsentratsiya riskini aniqlashda nazorat qiymatlarini belgilash va valyuta riskini kamaytirish bo'yicha takliflar ishlab chiqilgan.

Kalit so'zlar: valyuta riski, konsentratsiya riski, ochiq valyuta pozitsiyasi, xedjing, diversifikatsiya, xorijiy valyutadagi aktivlar.

Аннотация. В статье проанализированы вопросы управления валютным риском и риском концентрации в банковской системе Республики Узбекистан. Рассмотрена динамика доли иностранной валюты в основных индикаторах банковской системы и крупных коммерческих банков. По результатам исследования предложены контрольные значения для определения риска концентрации и меры по снижению валютного риска.

Ключевые слова: валютный риск, риск концентрации, открытая валютная позиция, хеджирование, диверсификация, активы в иностранной валюте.

INTRODUCTION

Commercial banks maintain foreign economic relations with international partners and actively participate in their clients' export–import transactions. These activities expose banks to a range of financial risks associated with foreign currencies, including foreign exchange risk, interest rate risk, concentration risk, and market risk. Since foreign exchange risk is largely driven by external macroeconomic and market factors, its management is particularly complex. As of the end of 2024, more than 41% of the assets of Uzbekistan's banking system were denominated in foreign currencies, while in several major commercial banks this figure exceeded 60%. This high degree of foreign currency exposure underscores the growing importance of effective foreign exchange and concentration risk management.

International experience demonstrates the severe consequences of ineffective foreign exchange risk management. For example, the annual depreciation of the Turkish lira by approximately 30–40% in 2018 and the nearly 50% devaluation of the Argentine peso were largely associated with excessive concentrations of foreign currency-denominated liabilities and loans. Therefore, maintaining balanced foreign exchange positions and limiting concentration risk have become critical priorities for ensuring the financial stability and resilience of commercial banks.

LITERATURE REVIEW

The application of financial derivatives in the management of foreign exchange and market risks has been extensively discussed in the works of **J. Hull**, who identifies options, futures, and swaps as effective hedging instruments for mitigating financial risk [1]. **H. Markowitz**, through Modern Portfolio Theory, demonstrated that risk can be reduced by diversifying assets and constructing an optimal investment portfolio [2]. **I. Blank** classifies risks into objective risks, arising from external economic factors such as exchange rate fluctuations and interest rate changes, and subjective risks associated with managerial and operational decisions [3].

Among domestic scholars, **N. Jumayev** [4] and **T. Boboqulov** [5] have examined issues related to the regulation of foreign exchange relations and the maintenance of national currency stability. Although these

studies provide an important theoretical and practical foundation for understanding foreign exchange risk, there remains a need to establish clear benchmark values for identifying and assessing concentration risk within Uzbekistan's banking system.

RESEARCH METHODOLOGY

This study employs comparative analysis, time-series analysis, statistical grouping, and interbank comparative analysis. The empirical database consists of statistical data published by the Central Bank of the Republic of Uzbekistan and the financial statements of major commercial banks, including the National Bank for Foreign Economic Activity (NBU), Uzsanoatqirilishbank (SQB), Asakabank, Turonbank, and OFB. The analysis covers the period from **2020 to 2024**.

During the preparation of this article, artificial intelligence tools were used as an auxiliary resource for approximately **5%** of the work, primarily for literature screening, the preparation of tables and figures, and linguistic editing. All statistical analyses, interpretations, and conclusions were independently conducted by the author.

ANALYSIS AND RESULTS

Foreign currency-denominated asset and liability transactions expose commercial banks to several types of financial risk. **Table 1** presents the share of foreign currency in the key indicators of Uzbekistan's banking system.

Table 1. Share of Foreign Currency in the Key Indicators of the Banking System (%)¹

Indicator	2020	2021	2022	2023	2024
Share in Total Assets	50,43	48,42	47,62	44,74	41,13
□ Share in the Total Loan Portfolio	50,10	50,18	47,44	44,69	42,59
Share in Total Liabilities	59,65	56,76	55,72	51,76	47,97
Share in Total Deposits	43,08	38,81	39,19	42,57	25,09

According to the analysis, the share of foreign currency-denominated assets in total assets declined from **50.43%** in 2020 to **41.13%** in 2024, while the share of foreign currency-denominated loans in the total loan portfolio decreased from **50.10%** to **42.59%** over the same period. This represents a positive trend, indicating a substantial reduction in foreign exchange risk within the banking sector. The share of foreign currency deposits also declined significantly, falling from **43%** to **25%**, primarily as a result of the Central Bank's mandatory reserve policy. The dynamics of these indicators are illustrated in **Figure 1**.

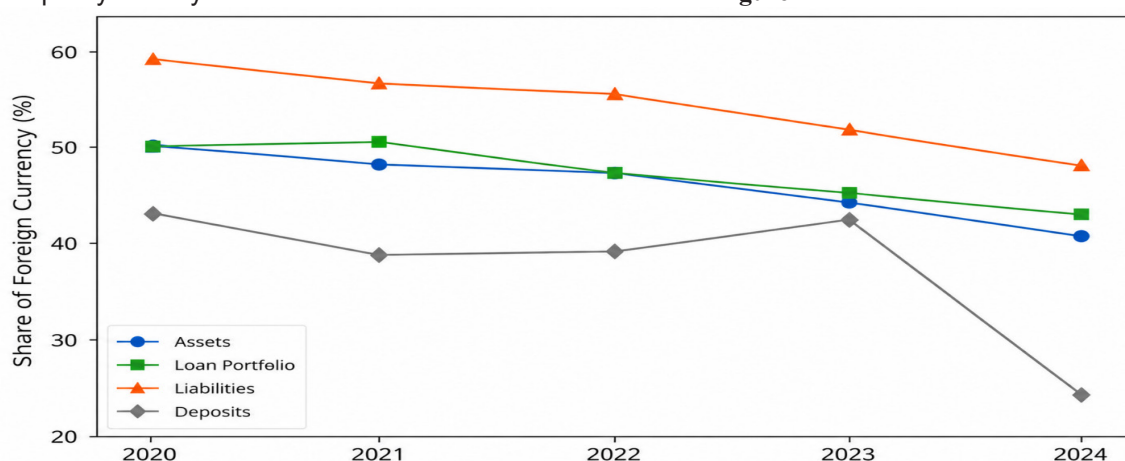


Figure 1. Dynamics of the Share of Foreign Currency in the Key Indicators of the Banking System (2020–2024)²

1 Source: Compiled by the author based on data from the Central Bank of the Republic of Uzbekistan.

2 Source: Prepared by the author based on the data presented in Figure 1.

The diagram reveals a consistent downward trend in the share of foreign currency across all key banking indicators. Nevertheless, the proportion of foreign currency-denominated liabilities remains relatively high at **47.97%**, which may increase funding costs and create additional financial pressure when these liabilities become due. Furthermore, in several major commercial banks, the share of foreign currency-denominated loans remains significantly higher than the banking system average, indicating an elevated level of concentration risk. **Table 2** presents the corresponding data for the country's major commercial banks.

Table 2. Share of Foreign Currency-Denominated Loans in the Total Loan Portfolio of Major Commercial Banks (%)³

Bank	2020	2021	2022	2023	2024
National Bank for Foreign Economic Activity of Uzbekistan (NBU)	68,49	68,09	69,94	65,58	64,13
JSCB Uz sanoatqurilishbank (SQB)	68,57	63,53	64,12	66,54	62,58
JSCB Turonbank	61,68	57,92	57,43	56,94	58,57
JSCB Asakabank	65,98	70,77	69,96	67,42	64,05
Orient Finans Bank (OFB)	45,24	35,94	29,93	37,57	49,80

The data presented in **Table 2** indicate that the share of foreign currency-denominated loans in major commercial banks remained within the range of **58% to 64%** during the study period. Such a high level of concentration increases banks' exposure to concentration risk. Based on the findings of this study, it is recommended that the following threshold values be adopted for identifying concentration risk: **37%** for the share of foreign currency-denominated assets in total assets, **32%** for the share of foreign currency-denominated loans in the total loan portfolio, and **30%** for the share of interbank deposits in total deposits. These benchmark values would enable banks to monitor excessive foreign currency concentration proactively and strengthen their overall risk management framework.

CONCLUSION AND RECOMMENDATIONS

Based on the findings of this study, several conclusions can be drawn.

First, the share of foreign currency in Uzbekistan's banking system has steadily declined over the past five years, resulting in a significant reduction in foreign exchange risk. This positive trend reflects the effectiveness of the prudent monetary and regulatory policies implemented by the Central Bank of the Republic of Uzbekistan.

Second, despite this overall improvement, the proportion of foreign currency-denominated assets and loans remains relatively high in several major commercial banks, indicating the need for enhanced concentration risk management. Accordingly, this study recommends adopting threshold values of **37%** for the share of foreign currency-denominated assets in total assets, **32%** for the share of foreign currency-denominated loans in the total loan portfolio, and **30%** for the share of interbank deposits in total deposits as benchmark indicators for identifying concentration risk.

Third, foreign exchange risk should be mitigated through the integrated application of comprehensive risk management measures, including the use of hedging instruments (such as forward contracts, swaps, and options), the establishment of limits on open foreign exchange positions, the maintenance of balanced foreign exchange positions, and the diversification of foreign currency exposures. The implementation of these measures will strengthen the financial resilience of commercial banks and enhance the overall stability of the banking system.

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³ Source: Author's compilation based on the financial statements of commercial banks.

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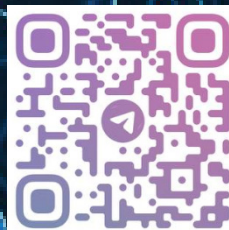
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