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# OPTIMIZING THE BALANCE BETWEEN LIQUIDITY AND CREDIT RISKS IN ENSURING BANKING STABILITY

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**Abstract.** This article provides a comprehensive analysis of the credit policy and the structure of financial liabilities of commercial banks in the Republic of Uzbekistan under modern economic reforms. The study is based on official statistical data from the Central Bank for 2023–2025, applying comparative analysis to examine the growth dynamics of bank liabilities, the expansion of the deposit base, and structural changes in the credit portfolio. Particular attention is given to optimizing the balance between liquidity and credit risks within the framework of international Basel III standards and contemporary academic approaches. The findings contribute to strengthening the financial resource base of the banking system and improving the risk management framework.

**Keywords:** commercial banks, credit policy, credit risk, liquidity, banking liabilities, deposits, Basel III, financial stability, credit portfolio, NPL, banking transformation.

**Annotatsiya.** Ushbu maqolada O'zbekiston Respublikasi tijorat banklarining zamonaviy iqtisodiy islohotlar sharoitidagi kredit siyosati hamda moliyaviy majburiyatlari tarkibi kompleks tahlil qilingan. Tadqiqot davomida 2023–2025-yillarga oid Markaziy bankning rasmiy statistik ma'lumotlari asosida bank majburiyatlarining o'sish dinamikasi, depozitlar bazasining kengayishi va kredit portfelining tarkibiy o'zgarishlari qiyosiy tahlil qilindi. Shuningdek, bank barqarorligini ta'minlashda likvidlilik va kredit risklari o'rtasidagi muvozanatni optimallashtirish masalalari xalqaro Basel III standartlari hamda zamonaviy ilmiy qarashlar asosida yoritildi. Tadqiqot natijasida bank tizimining moliyaviy resurslar bazasini mustahkamlash va risk-menejment tizimini takomillashtirishga oid ilmiy xulosalar ishlab chiqildi.

**Kalit so'zlar:** tijorat banklari, kredit siyosati, kredit riski, likvidlilik, bank majburiyatlari, depozitlar, Basel III, moliyaviy barqarorlik, kredit portfeli, NPL, bank transformatsiyasi.

**Аннотация.** В данной статье комплексно проанализированы кредитная политика и структура финансовых обязательств коммерческих банков Республики Узбекистан в условиях современных экономических реформ. В ходе исследования на основе официальных статистических данных Центрального банка за 2023–2025-годы проведён сравнительный анализ динамики роста банковских обязательств, расширения депозитной базы и структурных изменений кредитного портфеля. Особое внимание уделено вопросам оптимизации баланса между ликвидностью и кредитными рисками в контексте международных стандартов Basel III и современных научных подходов. По результатам исследования сформулированы научные выводы, направленные на укрепление ресурсной базы банковской системы и совершенствование системы риск-менеджмента.

**Ключевые слова:** коммерческие банки, кредитная политика, кредитный риск, ликвидность, банковские обязательства, депозиты, Basel III, финансовая устойчивость, кредитный портфель, NPL, банковская трансформация.

## INTRODUCTION

Commercial banks in Uzbekistan have been steadily strengthening their role as key financial institutions responsible for managing economic processes, efficiently allocating financial resources, and organizing credit activities. The banking system of Uzbekistan has followed an independent path of development since 1991, during which a series of structural and institutional reforms have been successfully implemented. These reforms have been consistently aimed at enhancing the stability and resilience of the financial system in line with the country's sustainable economic growth. In this context, credit policy, as one of the core functions of commercial banks, exerts a significant and positive influence on all segments of the economy.

At present, the Republic of Uzbekistan is confidently advancing toward a market-oriented, liberalized,

and open economy. In this transformative stage, the financial system—particularly the banking sector—serves as a fundamental pillar of economic development. Ongoing economic reforms, the gradual reduction of state participation, the increasing activity of the private sector, and the expansion of financial markets and the investment environment all contribute to enhancing the strategic importance of commercial banks. Consequently, the effective implementation and continuous improvement of credit policy play a crucial role in ensuring financial stability, supporting economic growth, and strengthening the overall competitiveness of the national economy.

## LITERATURE REVIEW

In the classical literature, liquidity and credit risk are widely regarded as two fundamental pillars of banking stability. In their seminal study, Douglas W. Diamond and Philip H. Dybvig (1983) demonstrate that the liquidity creation function of banks—transforming short-term deposits into long-term loans—is inherently associated with exposure to credit risk and vulnerability to bank runs.

Contemporary research increasingly treats liquidity and credit risk not as isolated factors but as mutually reinforcing components of overall bank risk. For instance, Bartosz Imbierowicz and Christian Rauch (2014) provide empirical evidence that the probability of bank default arises from the interaction between these two types of risk. Their findings suggest that managing a single risk dimension in isolation is insufficient to ensure long-term banking stability.

Within the framework of Basel III, the literature emphasizes the relationship between liquidity ratios—such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR)—and capital adequacy. Viral V. Acharya and S. Viswanathan (2011) argue that a deterioration in asset quality, reflecting increased credit risk, can constrain banks' ability to liquidate assets in financial markets, thereby triggering a "liquidity spiral."

Considering the specific characteristics of the banking system in Uzbekistan, domestic scholars have also examined the interplay between credit policy and liquidity management, particularly in banks with state participation. Notably, Sh. Abdullayeva (2017) highlights the importance of asset diversification and improvements in credit portfolio quality as key factors in strengthening bank liquidity management.

## RESEARCH METHODOLOGY

This study employs an empirical approach based on financial indicators of commercial banks in the Republic of Uzbekistan for the period 2023–2025. The analysis relies on official statistical data provided by the Central Bank, applying comparative analysis, time-series analysis, and structural analysis methods. The interrelationship between liquidity and credit risk is examined using logical analysis and the method of scientific abstraction. In addition, bank liquidity indicators are evaluated in accordance with the requirements of Basel III. Based on the results obtained, scientifically grounded conclusions are formulated to support the enhancement of banking stability.

## ANALYSIS AND RESULTS

In analyzing the financial condition and performance of commercial banks in the Republic of Uzbekistan, particular attention is given to changes in the structure of bank liabilities, as they represent a critical component of financial stability. Bank liabilities comprise all financial resources attracted from internal and external sources to support banking operations, and they serve as key indicators of liquidity, overall financial stability, and institutional resilience. Therefore, a detailed examination of financial indicators for the period 2023–2025, based on official data provided by the Central Bank, enables a more comprehensive assessment of the financial position of commercial banks.

According to the reported data, total bank liabilities amounted to approximately 467,950 billion UZS in 2023, increased to 569,092 billion UZS in 2024, and reached 708,139 billion UZS in 2025. The annual growth rates of 22% and 24%, respectively, clearly indicate a consistent and sustainable expansion of the banking system's financial resource base. This positive trend reflects not only the stable growth of the national economy but also the increasing financial activity within the banking sector. Overall, the observed dynamics demonstrate strengthening financial capacity, improved effectiveness of credit policy, and growing confidence among investors and clients in the banking system (Table 1).

Table 1

Analysis of Financial Liabilities in the Credit Policy of Commercial Banks in Uzbekistan (edited for academic style and consistency)<sup>1</sup>

No.	Indicators	2023 (billion UZS, %)	2024 (billion UZS, %)	2025 (billion UZS, %)	Growth 2024	Growth 2025
1	Deposits	198,500 (35.3%)	248,570 (43.7%)	339,160 (47.9%)	+25%	+36%
2	Central Bank correspondent accounts	550 (0.1%)	810 (0.1%)	1,930 (0.3%)	+47%	+138%
3	Funds from other banks (resident)	27,000 (4.8%)	29,282 (5.1%)	27,640 (3.9%)	+8%	-6%
4	Funds from other banks (non-resident)	12,800 (2.3%)	15,325 (2.7%)	18,826 (2.7%)	+20%	+23%
5	Borrowed funds and leasing	190,000 (33.8%)	224,260 (39.4%)	248,035 (35.0%)	+18%	+11%
6	Issued securities	8,000 (1.4%)	14,016 (2.5%)	29,772 (4.2%)	+75%	+112%
7	Subordinated debt	11,000 (2.0%)	12,873 (2.3%)	12,427 (1.8%)	+17%	-3%
8	Accrued interest (liabilities)	6,100 (1.1%)	7,684 (1.4%)	9,391 (1.3%)	+26%	+22%
9	Other liabilities	13,000 (2.3%)	16,270 (2.9%)	20,958 (3.0%)	+25%	+29%
	Total liabilities	467,950 (100%)	569,092 (100%)	708,139 (100%)	+22%	+24%

Deposits, as the largest component of bank liabilities, play a crucial role in ensuring financial stability. In 2023, deposits amounted to 198,500 billion UZS, accounting for 35.3% of total liabilities. In 2024, this figure increased significantly to 248,570 billion UZS, representing 43.7% of total liabilities. By 2025, deposits reached 339,160 billion UZS, with their share rising to 47.9%. The annual growth rates of 25% and 36%, respectively, indicate a strong and sustainable expansion of the deposit base. This upward trend reflects growing public confidence in the banking system, increased willingness of households and businesses to place funds in banks, and a noticeable improvement in financial literacy. In addition, positive economic developments, including the expansion of production and service sectors, have contributed to the growth of bank deposits. As a result, deposits serve as a stable funding source, supporting long-term financial sustainability, credit expansion, and the financing of new investment projects.

These changes in the liability structure of commercial banks contribute significantly to strengthening the financial resource base, improving liquidity management, and enhancing the effectiveness of credit policy. The steady growth of deposits indicates improved financial discipline among the population and increased trust in banking institutions. Enhanced cooperation with the Central Bank supports more efficient financial governance, while growing activity in foreign investment and securities markets facilitates deeper integration into the global financial system. Consequently, commercial banks are encouraged to manage their liabilities more efficiently, minimize financial risks, and continuously adapt their credit policies to evolving economic conditions. These measures are essential for ensuring sustainable economic development, strengthening financial system resilience, and promoting effective cooperation with both domestic and international financial markets.

Over the period 2023–2025, the credit portfolio of commercial banks in Uzbekistan expanded steadily, increasing its impact across all sectors of the economy. Total lending amounted to 468 trillion UZS in 2023, rose to 520 trillion UZS in 2024, and reached 565.6 trillion UZS in 2025. This reflects an average annual growth rate of 10–12%, indicating stable development of the financial sector.

In terms of structure, lending to individuals increased significantly, from 142.5 trillion UZS in 2023 to 170 trillion UZS in 2024 and 190.4 trillion UZS in 2025. This consistent growth is driven by rising demand for mortgage loans, auto loans, education financing, and consumer credit. Increased competition among banks, the introduction of digital lending platforms, and the expansion of fintech services have further simplified access to credit, thereby enhancing financial inclusion and supporting economic activity (Table 2).

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Table 2

Analysis of Total Lending by Commercial Banks in Uzbekistan (billion UZS)<sup>2</sup>

No.	Indicators	2023	2024	2025
1	Total loans	468,000	520,000	565,568
2	Loans to individuals	142,500	170,000	190,409
3	Loans to legal entities	325,500	350,000	375,159

At the same time, lending to legal entities has demonstrated steady and consistent growth. In 2023, loans extended to corporate clients amounted to 325.5 trillion UZS, increasing to 350 trillion UZS in 2024 and reaching 375.2 trillion UZS in 2025. This upward trend reflects active financing of large-scale projects across key sectors of the real economy, including industry, construction, agriculture, services, and export-oriented activities. Among corporate borrowers, enterprises in the energy, transport, and industrial sectors remain the most active users of bank credit. Furthermore, concessional lending programs implemented within the framework of state initiatives have contributed positively to maintaining the stability and continuity of this growth.

Based on the above findings, it can be concluded that the credit policy of commercial banks in Uzbekistan is being progressively oriented toward a balanced distribution of financial resources between households and business entities. The increasing share of loans extended to individuals indicates a rising level of financial inclusion. This trend serves as an important driver of sustainable economic growth, as the expansion of domestic demand—particularly in the consumption and service sectors—plays a significant role in supporting overall economic development.

## CONCLUSIONS AND RECOMMENDATIONS

One of the primary objectives of credit policy in commercial banks of Uzbekistan is to support and promote economic activity. Through lending, banks provide financial resources to both large and small business entities, facilitate the establishment of new production capacities, and deliver essential financial services to households and enterprises. In addition, credit policy plays an important role in supporting individual consumers, thereby contributing to improvements in living standards and overall economic welfare.

Credit policy also enables commercial banks to shape their strategic direction, regulate relationships with clients, allocate financial resources efficiently across sectors of the economy, enhance profitability, and strengthen competitiveness. In this context, credit policy serves as a comprehensive mechanism for conducting banking operations, generating income, building customer trust, and ensuring effective risk management.

To maintain an optimal balance between liquidity and credit risk, several practical recommendations are proposed. These include diversifying the credit portfolio and gradually reducing the share of high-risk assets. It is also essential to strengthen the balance between short-term and long-term liabilities and to ensure the stability of the deposit base. Furthermore, the integration of advanced digital technologies into risk management systems, the expansion of stress-testing practices, and full alignment with Basel III requirements will contribute significantly to enhancing banking stability and resilience.

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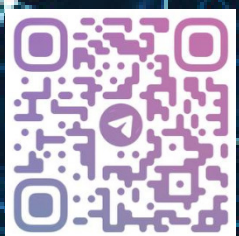
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