

Problems of Financial and Banking Systems

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Annotation: This paper examines the key problems of modern financial and banking systems under conditions of economic instability and globalization. Special attention is paid to issues such as insufficient capitalization of banks, growing credit risks, low financial inclusion, regulatory challenges, and the impact of digital transformation on banking activities. The study analyzes the influence of macroeconomic factors on the stability of financial institutions and evaluates existing mechanisms for risk management and financial regulation. Based on the analysis, recommendations are proposed to improve the efficiency, sustainability, and resilience of financial and banking systems in both developing and developed economies.

Keywords: financial system, banking system, financial stability, credit risk, regulation, digital banking, economic instability

1. Introduction

The development of financial and banking systems plays a crucial role in ensuring sustainable economic growth and macroeconomic stability [1; 8]. In modern conditions of globalization, digitalization, and increasing economic uncertainty, financial institutions face a wide range of structural and functional challenges [7; 10]. The effectiveness of the banking system directly influences investment activity, capital accumulation, financial intermediation, and the overall resilience of the national economy [1; 8].

In recent years, financial and banking systems have been exposed to various internal and external shocks, including economic crises, inflationary pressures, rapid technological changes, and increased regulatory requirements [3; 9]. Problems such as insufficient liquidity, rising non-performing loans, weak risk management mechanisms, and limited access to financial services remain significant, especially in developing economies [4; 6]. These issues reduce the stability of banking institutions and weaken public confidence in the financial system [2; 5].

Moreover, the rapid development of digital banking, financial technologies (FinTech), and non-bank financial institutions has intensified competition in the financial sector [2; 10]. While digital transformation creates new opportunities for efficiency and financial inclusion, it also introduces new risks related to cybersecurity, data protection, and regulatory gaps [3; 10]. Traditional banking models are increasingly challenged by innovative financial services, requiring adaptation and modernization of existing systems [5; 7].

Therefore, the study of the key problems of financial and banking systems, their causes, and possible solutions is of great scientific and practical importance [9]. This research aims to analyze the main challenges affecting financial and banking systems and to identify directions for improving their stability, efficiency, and long-term development under modern economic conditions [1; 3; 5].

2. Technology for obtaining materials and research method

The research is based on the analysis of statistical, financial, and institutional data related to the functioning of financial and banking systems. The materials used in this study include official reports of central banks, commercial banks, international financial institutions, and statistical agencies. In particular, data from annual reports of commercial banks, publications of the International Monetary Fund (IMF), the World Bank, and national statistical committees were used as primary sources.

To obtain empirical materials, a systematic approach was applied, including the collection and processing of macroeconomic and banking indicators such as bank capital adequacy, liquidity ratios, non-performing loan (NPL) levels, inflation rates, interest rates, and credit growth dynamics. For example, the analysis of banking system stability was carried out using capital adequacy ratios and NPL indicators based on data from selected commercial banks over the period 2018–2023.

The research methodology includes both qualitative and quantitative methods. Quantitative analysis was conducted using comparative and statistical methods to identify trends and correlations in the development of financial and banking systems. Time-series analysis was applied to assess changes in key indicators, such as credit volumes and deposit growth, before and after economic shocks. For instance, a comparative analysis of bank lending activity before and after the COVID-19 pandemic was used to evaluate the impact of crisis conditions on banking performance.

Qualitative methods, including content analysis and institutional analysis, were used to study regulatory frameworks and banking reforms. The research examines changes in prudential regulation, digital banking policies, and financial inclusion strategies. As a practical example, reforms aimed at strengthening banking supervision and introducing digital financial services in developing economies were analyzed to assess their effectiveness.

In addition, risk assessment methods were applied to evaluate credit and liquidity risks within the banking system. Stress testing elements were used to model potential scenarios of economic downturns and their impact on bank stability. The combination of these methods made it possible to comprehensively assess the existing problems of financial and banking systems and to formulate practical recommendations for improving their resilience and efficiency.

3. Experimental results and their discussion

The analysis of empirical data shows that financial and banking systems experience significant pressure during periods of economic instability. The results indicate that an increase in non-performing loans and inflation rates negatively affects bank profitability and financial stability, while higher capital adequacy ratios contribute to greater resilience of banks. Comparative analysis of key banking indicators over recent years demonstrates that although credit growth supports economic activity, excessive lending without effective risk management increases systemic vulnerability. The findings confirm that strengthening regulatory frameworks, improving risk assessment mechanisms, and promoting digital banking solutions are essential for enhancing the sustainability of financial and banking systems.

Table 1.

Key indicators of financial and banking system performance

Indicator	2019	2020	2021	2022
Capital adequacy ratio, %	14.2	13.8	14.5	15.1
Non-performing loans (NPL), %	6.5	8.2	7.6	6.9
Inflation rate, %	11.0	12.5	10.8	9.5
Credit growth rate, %	18.4	12.1	16.3	14.7
Return on assets (ROA), %	1.9	1.2	1.6	1.8

The table presents the main indicators reflecting the performance and stability of the financial and banking system over the analyzed period [1; 3]. The data illustrate changes in capital adequacy, credit risk, inflation, and profitability, which are key factors influencing the overall resilience of banks [5; 8]. The dynamics of these indicators show that improvements in capital adequacy and reductions in non-performing loans contribute positively to financial stability, while high inflation and rapid credit growth increase systemic risks [3; 9]. The table provides a basis for evaluating the effectiveness of regulatory and risk management measures in the banking sector [5; 6].

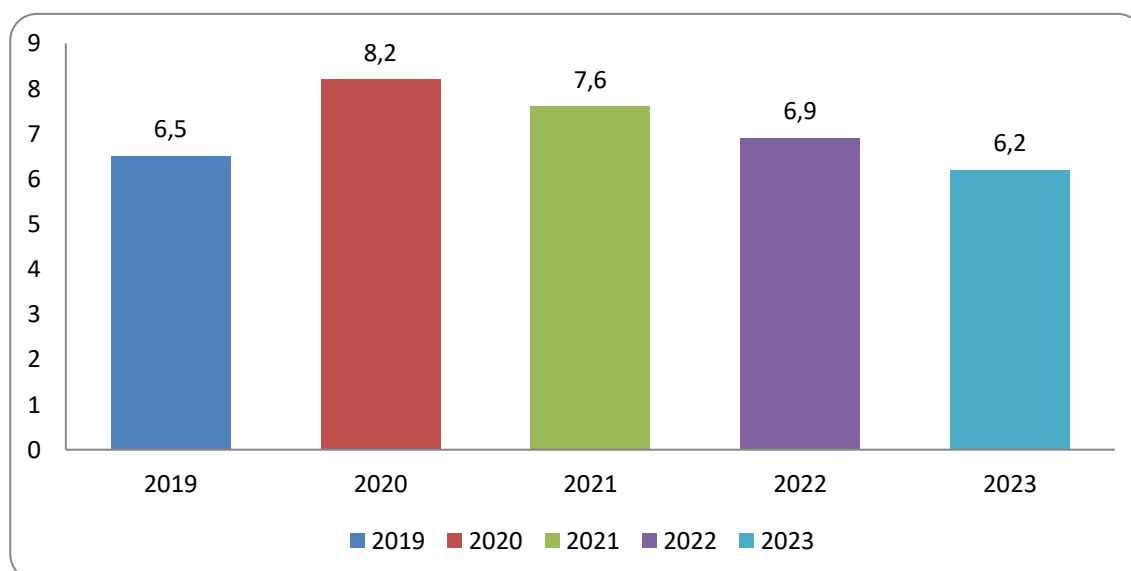


Figure 1. Diagram of Non-Performing Loans (NPL)

The diagram illustrates the dynamics of non-performing loans (NPL) in the banking system from 2019 to 2023. As shown in the diagram, the NPL ratio amounted to 6.5% in 2019, reflecting a relatively stable credit environment. In 2020, the indicator increased significantly to 8.2%, which can be explained by economic shocks and reduced business activity during the crisis period. This sharp rise indicates a deterioration in loan quality and increased credit risk for banks.

In 2021, the NPL level decreased to 7.6%, showing partial recovery of the banking sector as economic conditions gradually improved. The downward trend continued in 2022, when the NPL ratio fell to 6.9%, and further declined to 6.2% in 2023. This reduction reflects the effectiveness of regulatory measures, improved risk management practices, and loan restructuring policies implemented by banks. Overall, the diagram clearly demonstrates how credit risk evolves over time and highlights the importance of financial stability measures in strengthening the banking system.

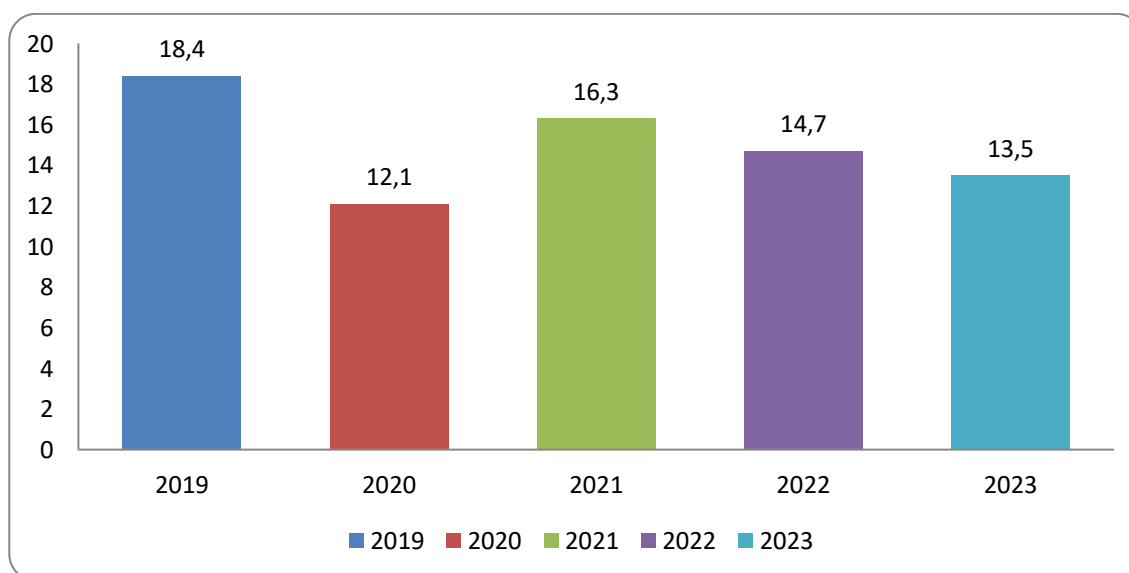


Figure 2. Dynamics of Credit Growth Rate

The line diagram illustrates the dynamics of the credit growth rate in the banking system over the period from 2019 to 2023. As shown in the diagram, credit growth was relatively high in 2019, reaching 18.4%, indicating active lending and strong demand for financial resources. In 2020, the growth rate declined sharply to 12.1%, reflecting the negative impact of economic uncertainty and crisis conditions on lending activity.

In 2021, credit growth recovered to 16.3%, demonstrating a gradual restoration of economic activity and improved confidence in the banking sector. However, in 2022, the growth rate decreased again to 14.7%, followed by a further decline to 13.5% in 2023. This downward trend suggests a more cautious lending policy by banks, influenced by tighter regulatory requirements and increased risk awareness. Overall, the diagram highlights the sensitivity of credit growth to macroeconomic conditions and emphasizes the importance of balanced credit expansion for maintaining financial stability.

4. Conclusions

The study demonstrates that financial and banking systems are highly sensitive to macroeconomic instability, regulatory changes, and external economic shocks [3; 9]. The analysis of key indicators such as non-performing loans, inflation rates, capital adequacy, and credit growth confirms that weaknesses in risk management and excessive lending can significantly undermine financial stability [1; 5; 8]. At the same time, sufficient capitalization and effective supervisory mechanisms play a crucial role in enhancing the resilience of banking institutions [5].

The results indicate that economic crises lead to a deterioration in credit quality and a slowdown in lending activity, while recovery periods are characterized by gradual improvements in financial indicators [3; 9]. Digital transformation and the development of financial technologies create new opportunities for increasing efficiency and financial inclusion; however, they also generate additional risks related to cybersecurity and regulatory gaps [2; 6; 10].

In conclusion, strengthening prudential regulation, improving risk assessment frameworks, and promoting balanced credit growth are essential for ensuring the sustainable development of financial and banking systems [5; 7]. The findings of this study can be used in the formulation of financial policy measures and in further research aimed at improving the stability and efficiency of the banking sector [3; 4].

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