WAYS TO REDUCE RISKS IN FOREIGN EXCHANGE OPERATIONS OF COMMERCIAL BANKS

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ABSTRACT

Forecasting the exchange rate is a very complex activity compared to forecasting other macroeconomic indicators. For accurate forecasting of the exchange rate, the work of the Central Bank to regulate the correct monetary policy and the inflation rate is important. It is also necessary to take into account the level of openness of the economy. Because the more open the economy, the higher the correlation between the exchange rate and the inflation rate

Introduction. Forecasting the exchange rate is a very complex activity compared to forecasting other macroeconomic indicators. For accurate forecasting of the exchange rate, the work of the Central Bank to regulate the correct monetary policy and the inflation rate is important. It is also necessary to take into account the level of openness of the economy. Because the more open the economy, the higher the correlation between the exchange rate and the inflation rate.

In this regard, the Resolution of the President of the Republic of Uzbekistan "On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020–2025", adopted on May 12, 2020, Decree No. PF-5992, " An analysis of the current situation in the banking sector showed that there are a number of systemic problems that hinder the development of the banking sector in line with economic reforms and the needs of society, such as high levels of state intervention in the banking sector, insufficient quality of management and risk management in banks with state participation, and a low level of financial intermediation in the economy " [1] .

Also, on September 11, 2023, the Decree of the President of the Republic of Uzbekistan "On the Strategy of Uzbekistan-2030" was adopted. The strategy provides for accelerating reforms in the banking system, increasing the size of the banking services market and developing competition in the sector, bringing the annual lending volume in the banking and financial system to $ 40 billion, and increasing the volume of bank deposits by 4 times. In order to develop banking services and increase the volume of lending, it is necessary to form bank resources and improve currency operations. The need to form information in this area at the level of international standards and positive experiences of foreign practice in order to systematically solve existing problems requires extensive research on the topic.

Eliminating the potential negative impact of the national exchange rate on the prices of consumer goods plays an important role in the monetary policy of central banks. This is because there is a close relationship between inflation and the exchange rate.

The adoption of the Decree of the President of the Republic of Uzbekistan No. PF-5177 “On Priority Measures for Liberalizing Currency Policy” dated September 2, 2017 was aimed at fundamentally reforming the current currency regulation system, liberalizing currency policy, and creating equal conditions for all business entities in carrying out foreign trade activities[2]. The active phase of banking sector reform in our country, which began in 2017, made a significant contribution to the liberalization of the foreign exchange market . In connection with the adoption of a new edition of the Law of the Republic of Uzbekistan No. O'RQ-573 “On Currency Regulation” on October 22, 2019, the existing types of currency transactions in practice were covered and the norms in the legislation were reduced to the maximum[3].

The results of scientific research by a number of Uzbek economists have shown that the level of diversification of foreign exchange reserves of commercial banks in our republic is very low, and the main part of their foreign exchange reserves (more than 90 percent) is in US dollars [4].

Also, today, many scientists have deeply analyzed the essence and content of currency transactions and made important scientific developments in this direction. In particular, C. Nobes and R. Parker in their work “Comparative International Accounting” showed the differences between international financial accounting systems. Their research suggests ways to solve the complexities of managing currency transactions of commercial banks by adapting them to international standards [5]. It is worth noting the work “Financial and Managerial Accounting” by B. Needles and M. Powers [6]. This book deeply covers the international standards of the financial accounting system, in particular, the application of IFRS rules for accounting for currency transactions. They emphasize the need to modernize accounting systems to reduce risks associated with changes in exchange rates. D. Diamond and P. Dybvig, who paid attention to liquidity issues in banking activities, noted that currency transactions play an important role in ensuring the financial stability of commercial banks. They studied ways in which banks can increase customer trust by accurately reporting transactions [7].

There are a number of problems in managing risks in the activities of banks in our republic, and eliminating them and establishing a modern risk management system based on international standards will further strengthen the stability of our country's banking system.

Scientific classification of risks provides a clear representation of the place of each risk in their general system. Classification of risks makes it possible to apply appropriate methods and measures for their management. In modern economic literature, there are several classifications of banking risks for the purposes of analysis and management.

The optimal balance between efficiency and risk in foreign exchange operations encompasses complex requirements for each aspect of the activity:

1. Profitability (minimum level of profitability in personal means).

2. Liquidity (minimum allowable liquidity ratio over periods).

3. Risk (the maximum permissible level of risk for the bank and for individual operations). The optimal balance between the efficiency of operations and risk, as well as the

optimality of the bank's goals, is one of the complex selection criteria for the asset management strategy. The trade-off between the level of risk and the efficiency of operations is determined individually, based on the current priorities of a particular commercial bank.

in our country in the last months of 2024 was short-term in nature and was formed under the influence of the depreciation of the currencies of some trading partners and the high inflation rate in our country compared to them. In the second half of 2025, as the inflation rate decreases, the real effective exchange rate is expected to return to its medium-term trend level.

Table 1

Bank loans in foreign currency according to percent rates[1]

(average) weighed percent rates , annual in account , %, 2025 during)

Credit type and deadline	Side .	Feb.	March	April	May	June	July	Aug.	You .
Total loans	10.2	10.4	10.2	9.9	9.9	9.9	9.9	10.5	10.1
1 year was loans	10.5	10.5	10.6	9.4	9.4	9.7	8.7	10.1	9.6
1 year high was loans	9.8	10.4	9.8	10.3	10.3	10.0	10.7	10.7	10.3

1 above show that the weighted average interest rates on loans in foreign currency issued by commercial banks during 2025 were relatively stable, but had different dynamics over time. In particular, interest rates on total foreign currency loans were formed in the range of 10.2–10.4 percent at the beginning of the year, showed a downward trend in the middle of the year, and increased again in August. This indicates that commercial banks are adjusting their interest rate policy, taking into account liquidity conditions in the foreign exchange market, the Central Bank's monetary policy signals, and expectations for the exchange rate.

The relatively high formation of interest rates on foreign currency loans for up to 1 year in some months of the year is explained by the high risks associated with exchange rate fluctuations in short-term lending. In particular, the sharp decrease in the interest rate in this segment in July (8.7 percent) may be associated with banks optimizing lending volumes to reduce short-term currency risks or a temporary increase in liquid currency resources. From this point of view, the use of flexible interest rates on short-term foreign currency loans appears as an instrument for operational management of currency risks for commercial banks.

The relatively stable and in some months higher interest rates on foreign currency loans over 1 year indicate a combined increase in currency risks, interest rate risk and credit risk in long-term lending. The increase in interest rates on long-term loans is considered a precautionary measure by banks to compensate for expected exchange rate fluctuations and external macroeconomic uncertainties. This situation banks by risk- based percent policy being used confirms .

In general in the table , reflection delivered percent rates dynamics commerce banks currency in operations risks reduction important from the roads one as percent rates through risks pricing mechanism active being used shows . Currency loans according to percent rates deadlines in the section differentiation , banks open currency positions limit , currency course

[1] Compiled by the author based on information from the site https://cbu.uz/

volatility in consideration received without credit conditions adaptation and currency swap and forward transactions through hedging from mechanisms use commerce banks for risks reduction effective methods is considered .

With this together , this indicators commerce in banks asset and passives management (ALM) system improvement , currency loans stress tests on regular transfer and credit recipients currency to the proceeds based credit principles reinforcement necessity As a result , the percentage policy and currency risks management mechanisms the banking sector 's unity financial stability to strengthen service does .

To sum up, the risks management first element this is marginal is a supply . Simply as telling if we are , someone one asset sell or purchase to do according to order to give for order size approximately 3-10 percent in the amount of supply input need will be . This supply asset market value increase from danger protection If the asset market value more than 10 percent to leave cases observed , central counterparty guarantee from funds use through default manages the Guarantee Fund funds insufficient in cases damage backup fund funds on account of is covered . Also , the central counterparty to default road put trade participants on behalf of one daily currency swap and REPO transactions to compose through default to manage possible.

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