

Financial Risk Management Strategies and Their Analysis in Uzbekistan and Internationally

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Abstract: This article describes strategies for managing financial risks in Uzbekistan and internationally, as well as their practical analysis. The concept of financial risk, and its main types - market, credit, liquidity, currency, and interest rate risks are analyzed. The reforms in the field of risk management, the banking sector reform, and the development of the insurance system are discussed in the experience of Uzbekistan. Also, proposals were made to improve the efficiency of financial risk management.

Keywords: global economic environment, risk, financial loss, financial risk, credit risk, currency risk, interest rate, heuristic method, international financial system, risk of project participants, risk of increase in project estimate value, risk of not completing the construction on time, risk of low quality of work and object, structural and technical risk, production risk, management risk, sales risk, country risk, administrative risk, legal risk, force majeure risk.

INTRODUCTION

In the global economic environment, financial risks are a constant threat to any country and enterprise. In the process of economic reforms in Uzbekistan, identifying, assessing, and effectively managing financial risks has become an urgent issue in order to ensure financial stability and improve the investment environment. At the same time, international experience is also important in reducing financial risks and ensuring stability.

Therefore, first of all, it is necessary to understand the true meaning of the term "risk". For example, there is the word "risicon" in Greek, which means a rock, a peak, the word "risiko" in the Greek language means risk, the meaning of threat, the word "risicare" means skillfully passing over a rock, the word "risdoe" in French means a threat, to go around a rock, in economic dictionaries, risk, danger, the possibility of damage and loss, the chance of danger or success. It means to go towards danger in hope. The word "risk" is derived from a Spanish-Portuguese word that means "underwater rock".

In the explanatory dictionary of the Russian language of the well-known lexicographer S.I. Ojegov, it is said that "risk means the pursuit of success, hope for a happy event", and in the famous Webster's dictionary, the risk is considered as "the possibility of danger, damage and loss". V.T. Sevryuk defined that "risk is a situation, a situational state of a producer", while the scientist A.Ol Shansky defined that "risk is the measure of the probability of loss or benefit." Representatives of the classical school made an important contribution to the study of risk theory. A. Smith tried to clarify the concept of mutual proportionality between risk and profit. He notes that "in a high-risk area, the legal return is small, which in turn increases the weight of

methods to increase the expected rate of return." Professor V. Usosikin explains that "risk is always accompanied by uncertainty and is associated with recent events that are difficult or impossible to foresee." According to Stoyanova: "Risk is the probability of not being able to get a profit or suffering a loss about the planned option". Summarizing the risk, Professor V.V. Kovalyov defines it as follows: "Risk is the degree of financial loss determined by adverse socio-political changes in the country, dynamics of technical and economic indicators, new technical and technological parameters, incompleteness or uncertainty of information about product quality, changes in market conditions, i.e. prices, exchange rates, gross domestic product, etc., changes in natural climate conditions, the occurrence of natural disasters technical risks of production, breakdown, and downtime of equipment, the uncertainty of the goals of the project participants, the incompleteness of my information about the financial status and reputation at work, etc"¹. The financial market is the area with the highest risk, and the risks in it are divided into two large groups:

- systematic risks;
- unsystematic risks.

Systemic risk (investment portfolio risk) is not only certain securities, but the entire market, a large part of which is exposed to risk. In unsystematic risks, some securities or their complex are at risk, that is, securities of a certain company or securities of a network (Figure 1).

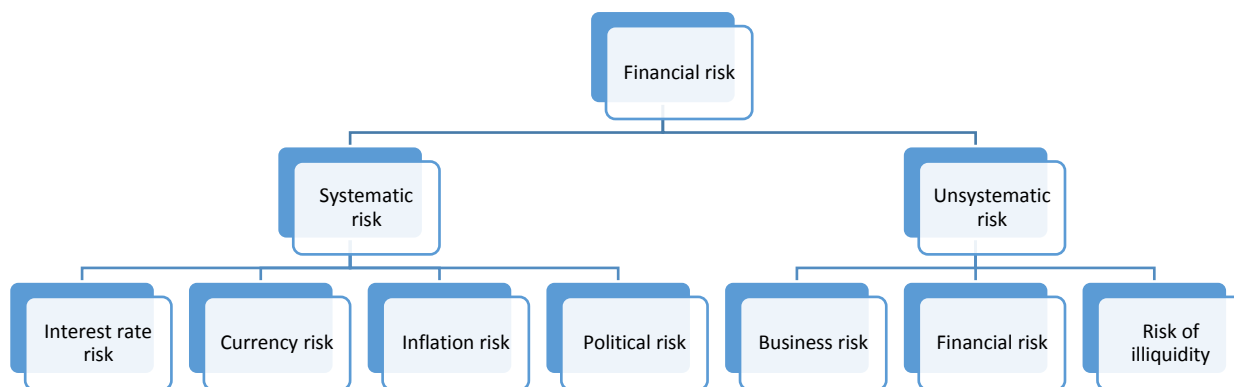


Figure 1. Grouping of financial risks.

Based on the above classifications, the following group of risks in project activities can be mentioned:

- 1) risk of project participants;
- 2) the risk of an increase in the project estimate value;
- 3) the risk of not completing the construction on time;
- 4) Risk of low quality of work and object;
- 5) structural and technical risk;
- 6) production risk;
- 7) management risk;
- 8) sale risk;
- 9) financial risk;
- 10) country risk;

¹ 2. A. Kh. Islamkulov, B. K. Sattarov, K. U. Sharifkhodjayeva "Financial risk management", T: FINANCE-ECONOMICS, 2017

- 11) administrative risk;
- 12) legal risk;
- 13) risk of force majeure.

Project participant risk is the risk that the participants will not fulfill their obligations within the framework of the project activities knowingly or necessarily. An increase in the project estimate can be caused by:

errors in the design process

failure of the contractor to ensure efficient use of resources

changes in project implementation conditions, etc.

The risk of not completing the construction on time is affected by the following: the failure of the contractor to fulfill his obligations, changes in external conditions, additional costs arising as a result of the extension of the duration of construction works: the calculation of interest on the loan, the increase in the cost of work and materials due to the increase in prices due to inflation will cause additional costs. The risk of low quality of work and objects may arise as a result of breach of obligations of contractors, errors in design, etc. Construction risk is the risk of technical failure of the project at the investment stage. Technological risk is the risk of limitations in the operation of the facility from certain technical and economic parameters as a result of the non-use of production technologies at the industrial level. Production risk is the risk of defects in the production process. Management risk is a type of production risk that occurs as a result of insufficient experience and skills of the manager. Sales risk is the risk of a decrease in the sales volume of the project product and the price of this product.

Financial risk is the main type of risk in project activity:

- a) credit risk;
- b) currency risk;
- c) is the interest rate risk.

Country risk refers to external project risks, the socio-political processes of the country where the project is being implemented and the state's policy can create serious difficulties for the project activity and even destroy the project. Administrative risks are associated with the acquisition of various licenses and permits by the project companies and other participants of the project activities from the state control and regulatory authorities. Legal risk is to some extent related to country, administrative, and management risks. Force majeure risk is one of the external risks not related to the project activity, which includes earthquakes, fires, floods, storms, and other natural events.

Critically analyzing the results of socio-economic development in the past period in our country, the President of the Republic of Uzbekistan Sh.M. Mirziyoyev says: "Our most important priority is to further strengthen macroeconomic stability and maintain high rates of economic growth, to study the financial market, including ensuring that the State budget is balanced at all levels, the national currency and the price level in the domestic market are stable."².

Risk management is considered an integrated activity in the conditions of a developing market economy, which includes risk assessment, strategy development and management, reducing the level of risk, and using management resources. Usually, traditional risk management focuses on the risk that causes the origin (for example, natural disasters or fires, accidents, or death). Financial risk management can be approached in different ways. Risks can be examples of many types of threats caused by the environment, technology, people, organizations, and political

² Sh.M. Mirziyoyev Critical analysis, strict discipline, and personal responsibility should be the daily rules of every leader's activity T, Uzbekistan, 2017

situations. Risk management is the ability to prevent, eliminate, or reduce risks that may occur in various ways and methods. Risks have a special effect on the activities of organizations in the market economy.

The purpose of risk management is to manage possible risks, prevent their occurrence or reduce their impact, eliminate the negative consequences of the crisis and influence the expected problems with a set of drastic measures. Risk management consists of four steps, namely risk identification, assessment, risk reduction or elimination, and risk monitoring.

In turn, there are three main forms of financial risks: 1. Risks related to the purchasing power of money. 2. Risks associated with capital investments or investment risks. 3. Risks related to the form of business activity.

Analysis and results:

It is ineffective to assign risk management to the manager because, in small organizations, responsibility for risk management has become more active at the level of managers. In medium-sized and large organizations, responsibility is distributed among some managers. For example, in large organizations and institutions that operate in a high-risk environment, such as banks, insurance companies, petrochemical and energy industries, aviation industry, and transport, a designated specialist, that is, a risk manager, works (Fig. 2).

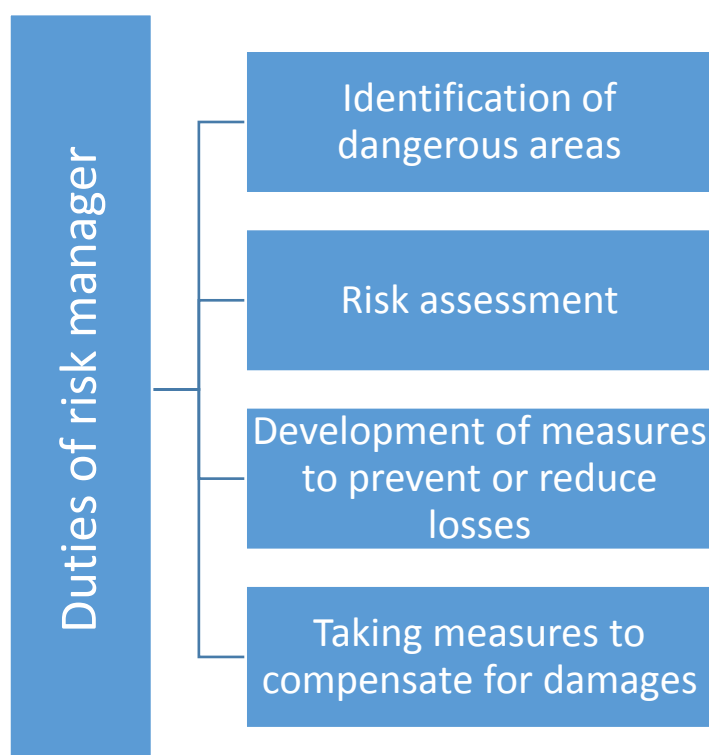


Fig. 2. The main tasks of the risk manager.

The significant impact of risk is observed in financial activities and its serious impact on financial planning is emphasized by managers. Among the most effective methods and techniques in risk management, the following are particularly important:

1. Basel I, Basel II, Basel III - standards revealing the level of adequacy of banks' capital for operational risk;
2. CCA (cause and effect analysis) - FTA and ETA;
3. CLA (checklist analysis).

It is possible to prevent the negative consequences of any risk through the extensive use of its methods in risk management, various ways of reducing risk, and a set of measures that help in the immediate implementation of the assigned task. Clear and operational risk management plays

an important role in preventing or managing emerging risks. Operational management is to find an appropriate way to eliminate this problem in a short time, relying on previously acquired experience, without thinking about the events from a logical side. The certainty of the risk is explained by the certainty of the causes and consequences of the occurrence of risky relations. If the above two methods do not help the impact of the risk, that is, the level of risk does not decrease or the scope of influence expands, then the heuristic method is used in risk management. Through this method, it is possible to logically think about risk, conclude life experiences, and develop a clear criterion. The heuristic method is based on the following considerations:

1. Avoid a high-risk attitude towards your capital.
2. It doesn't make sense to go for a low-return, high-risk approach.
3. It is always necessary to choose the right method in risky relationships.

The objective necessity of risk management is characterized by the following: First, despite the presence of reliable technologies, it is very important to ensure the safe operation of light and heavy industrial enterprises. Secondly, due to the economic liberalization of the market and industries, it is necessary to prevent changes in the organizational structure of the industries as a result of the pressure exerted by the leaders, the increase in economic efficiency, and the profitability of the management staff and the organization. At the same time, the operational importance is to be free from factors that slow down the work process, such as reducing the number of employees. Thirdly, the need to provide specific support to small business and private business entities, enterprises, and emergency accidents caused by inexperience in various branches of industry showed the importance of risk management.

Risk management was also analyzed in terms of the nature of the risk and measures were taken to further reduce it.

Financial risks arose with the emergence of money circulation and monetary relations of various forms (investor-issuer, creditor-borrower, seller-buyer, exporter-importer). In the conditions of market relations, financial risks are an integral part of business activity. Recently, companies from different countries have been actively participating in the stock market, trying to draw appropriate conclusions from the evolution of risk management, which is necessary for the most important financial management system in the field of corporate governance, aimed at reducing risk development. For example, the US has introduced business sector management and risk management among other factors. It is important to note the following: increasing the number of appeals at the time of increasing demand for coordination of state regulation, coordination of profit and loss, and the fact that shareholders have tried to make modern changes to avoid financial and non-financial threats through controversial, often general trends. It was developed by economists as a basis for risk management to develop a methodological basis for these cases, to manage enterprise risk and to create a uniquely American model, to adapt it, to identify, describe, analyze, and achieve certain achievements in the field of risk management in business and professional standard financial environment. Corporate risk management has become one of the relatively new concepts in the field of such fundamental risk management by modern standards. In recent years, risk management has gained attention as a theory and has been put into practice.

Some systematic measures have been taken and are being implemented in Uzbekistan and around the world to manage financial risks. Strategies for financial risk management in Uzbekistan are as follows:

- In order to ensure the stability of the banking sector in Uzbekistan, a risk management system was introduced (for example, credit risks, liquidity risks).
- Banks began to meet capital adequacy and liquidity requirements by Basel III standards.

- "Risk management departments" have been established in commercial banks.
- The Central Bank of the Republic of Uzbekistan has strengthened macroprudential control and is conducting stress tests.
- The liberalization of the currency policy and the transition to the inflation targeting regime serve to reduce risks and provide predictability.
- Insurance services are being expanded to reduce financial risks.
- State-supported agrarian and export insurance is being widely introduced.
- Regulatory documents on risk management for electronic payment systems and Fintech companies are being developed.
- Special cyber security measures are being taken.

The following are the main directions and implemented strategies for managing financial risks at the global level:

1. Basel II and Basel III standards form the basis of risk management for financial institutions globally.
2. Major central banks such as the US Federal Reserve, the European Central Bank, and the Central Bank of Japan ensure systemic stability by controlling inflation, exchange rates, and macroeconomic risks.
3. The International Monetary Fund (IMF), the World Bank, and other financial institutions are helping countries identify, monitor, and manage risks.
4. The development of cryptocurrencies and Fintech has created new risks that are prompting global regulators to develop new standards.

Conclusion:

In conclusion, measures implemented in Uzbekistan and other countries to manage financial risks serve to ensure economic stability. The introduction of Basel standards in the banking sector, improvement of risk management systems in joint-stock companies, and improvement of the financial literacy of the population are important in this direction. In the world experience, the assessment of financial risks is based on international standards and best practices.

Financial risk management is one of the main factors of global economic stability today. Financial risk management is also an important factor that ensures investment attractiveness. Significant positive changes in this direction are observed in Uzbekistan, but we can make this process more effective through an in-depth study of international experience and introduction of modern management strategies.

In the conditions of changes and instability in the world financial system, the issue of identifying, evaluating and effectively managing financial risks is gaining great importance. In particular, the deepening of market mechanisms in the economy of Uzbekistan leads to an increase in financial risks.

By the end of the year, the risk reduction trend in the NPL (unpaid loans) level (%) of bank credit in the banking system of Uzbekistan was 9.2% in 2020, 7.5% in 2021, 6.1% in 2022, 5.3% in 2023, and 4.7% in 2024.

Currently, we need to expand the understanding of risks for the population and entrepreneurs in our country, increase the number of internationally certified managers, and introduce advanced foreign standards and methods into national practice.

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