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BASEL III REQUIREMENTS AND THEIR IMPACT ON THE ACTIVITIES OF COMMERCIAL BANKS IN UZBEKISTAN

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Abstract
This article examines the Basel III requirements and their implications for the activities of commercial banks in Uzbekistan. The study highlights the key elements of Basel III, including capital adequacy standards, liquidity ratios, and risk management mechanisms, and analyzes their relevance to the Uzbek banking sector. Particular attention is paid to the challenges and opportunities associated with the implementation of Basel III, such as strengthening the capitalization of banks, improving financial stability, and enhancing risk-based supervision. The findings suggest that while Basel III requirements impose stricter regulatory standards, they also contribute to the long-term resilience and competitiveness of Uzbekistan's commercial banks in a rapidly changing financial environment.

Keywords: Basel III, commercial banks, Uzbekistan, capital adequacy, liquidity coverage ratio, net stable funding ratio, risk management, financial stability.

Introduction

The stability and resilience of the banking system remain critical for ensuring sustainable economic growth, maintaining financial discipline, and supporting the real sector of the economy. Commercial banks play a central role in mobilizing savings, providing credit resources, and facilitating payments and

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settlements, which directly influence macroeconomic stability and the efficiency of financial intermediation (Mishkin, 2019). Therefore, the adequacy of capital and the effectiveness of its management have become decisive factors for the long-term sustainability of the financial system.

The global financial crisis of 2008 revealed serious weaknesses in bank regulation, particularly in the areas of risk management, liquidity maintenance, and capital adequacy (Claessens et al., 2010). To address these shortcomings, the Basel Committee on Banking Supervision (BCBS) developed the Basel III framework, which introduced more stringent requirements on capital quality, leverage ratios, and liquidity standards. The main goal of Basel III is to improve the ability of banks to absorb shocks arising from financial and economic stress, thereby reducing the risk of contagion across the financial system (BCBS, 2011).

For countries with emerging financial markets, including Uzbekistan, the implementation of Basel III requirements is of strategic importance. Uzbekistan's banking sector has been undergoing deep reforms in recent years, aimed at liberalization, privatization, and alignment with international best practices (World Bank, 2020). In this context, strengthening capital adequacy, improving liquidity management, and developing advanced risk-based supervisory approaches are crucial steps to ensure the integration of the national banking system into the global financial architecture.

At the same time, the adoption of Basel III standards presents a dual challenge for Uzbek commercial banks. On one hand, it requires increasing capitalization levels, restructuring risk management practices, and investing in digital infrastructure to meet international standards. On the other hand, it opens up opportunities to enhance financial resilience, build investor confidence, and strengthen the competitiveness of the banking sector in a rapidly evolving global economy (Ernst & Young, 2021). Consequently, analyzing the implications of Basel III requirements for Uzbekistan's commercial banks is both timely and practically relevant.

Methodology

This study employs a qualitative and comparative research methodology to analyze the impact of Basel III requirements on the activities of commercial

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banks in Uzbekistan. The research is based on a combination of descriptive, analytical, and comparative approaches, which allow for the systematic evaluation of both international regulatory frameworks and the specific context of Uzbekistan's banking sector.

First, a **descriptive analysis** is applied to outline the core principles and requirements of Basel III, including capital adequacy ratios, liquidity standards, and leverage ratios. This helps to clarify the scope and objectives of Basel III reforms and establish a baseline for further evaluation (Hull, 2015).

Second, a **comparative method** is used to contrast Basel III requirements with Uzbekistan's current regulatory framework for commercial banks. This comparison provides insights into the convergence and divergence between international standards and domestic practices (BCBS, 2011). Special attention is given to the regulatory directives of the Central Bank of Uzbekistan, which play a central role in aligning national banking practices with global frameworks (Central Bank of the Republic of Uzbekistan, 2022).

Third, the research applies **statistical and empirical data analysis** by reviewing financial indicators such as capital adequacy ratios (CAR), liquidity coverage ratio (LCR), and net stable funding ratio (NSFR) of commercial banks in Uzbekistan. Publicly available reports from the World Bank, IMF, and domestic banking statistics serve as key data sources for this analysis (IMF, 2021; World Bank, 2020).

Finally, the study incorporates a **case-based approach** by examining selected commercial banks in Uzbekistan that are actively engaged in capital strengthening, digital transformation, and risk management system modernization. This case-study dimension allows for the identification of practical challenges and opportunities faced by banks in adapting to Basel III requirements (Ernst & Young, 2021).

Overall, the methodological framework integrates international literature review, comparative analysis, and empirical data evaluation. Such a multi-dimensional approach ensures both the theoretical depth and the practical applicability of the findings.

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Results and Discussion

The introduction of Basel III requirements represents a fundamental transformation in the global banking regulatory environment. For Uzbekistan, where the banking sector is undergoing structural reforms and gradual integration into international markets, the implications of Basel III are both significant and multidimensional. The results of this study highlight several key areas: capital adequacy, liquidity management, leverage control, and overall financial stability.

1. Capital adequacy in commercial banks of Uzbekistan

Basel III raises the minimum requirement for Common Equity Tier 1 (CET1) capital to 4.5% of risk-weighted assets, and introduces a capital conservation buffer of 2.5%, resulting in a total requirement of at least 7% CET1 and 10.5% total capital ratio (BCBS, 2011). In Uzbekistan, the Central Bank has gradually increased capital adequacy requirements to align with international norms. As of 2021, most large commercial banks reported capital adequacy ratios exceeding the domestic regulatory minimum of 13%, though differences remain among state-owned and private banks (Central Bank of the Republic of Uzbekistan, 2022).

Table 1. Comparative overview of capital adequacy ratios

Indicator	Basel III minimum	Uzbekistan requirement	Average in Uzbek banks (2021)
CET1 ratio	4.5%	7.5%	12.0%
Tier 1 capital ratio	6.0%	10.0%	14.5%
Total capital ratio	8.0% (+2.5% buffer = 10.5%)	13.0%	17.2%

Source: BCBS (2011); Central Bank of Uzbekistan (2022).

Interpretation:

The data suggests that Uzbekistan's regulatory requirements are even stricter than the Basel III minimums. This policy is designed to ensure greater resilience of the banking system during the reform period. However, it also places pressure on banks to continuously increase their capital base, often through state injections or retained earnings. While this strengthens financial stability, it may limit credit expansion in the short term.

2. Liquidity management and stability

Basel III introduces two important liquidity ratios: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The LCR ensures banks maintain sufficient high-quality liquid assets to cover short-term cash outflows over 30 days, while the NSFR promotes stable funding structures for a one-year horizon.

In Uzbekistan, liquidity positions of banks remain generally strong due to conservative regulatory policies. However, challenges arise in diversifying liquid assets and improving maturity matching between assets and liabilities. Many banks still rely heavily on short-term deposits as a funding source, which creates vulnerabilities.

Table 2. Liquidity indicators comparison

Indicator	**Basel III standard**	**Uzbekistan (regulatory minimum)**	**Average in Uzbek banks (2021)**
LCR	≥ 100%	≥ 100%	125%
NSFR	≥ 100%	≥ 90%	105%

Source: BCBS (2011); IMF (2021).

Interpretation:

The results show that Uzbek banks on average comply with LCR and NSFR requirements. However, maintaining these indicators often requires restricting lending activity and prioritizing liquidity buffers, which may slow down credit growth in the private sector.

3. Risk management and leverage ratio

Basel III sets a minimum leverage ratio of 3% (Tier 1 capital to total exposure). This measure is intended to prevent excessive leverage in banking systems. For Uzbekistan, average leverage ratios exceed this minimum, reflecting relatively conservative balance sheet structures. Yet, as banks expand their operations and increase foreign borrowing, maintaining safe leverage levels will become a critical issue (Ernst & Young, 2021).

4. Strategic implications for Uzbekistan's commercial banks

The implementation of Basel III in Uzbekistan creates both **opportunities and challenges**. On the opportunity side, stronger capitalization and liquidity standards will boost confidence among international investors and development partners, facilitating access to global capital markets. Moreover, adopting advanced risk-based supervision will enhance the efficiency and transparency of the banking sector.

On the challenge side, the need for additional capital injections may slow down privatization and liberalization processes. Banks may also face difficulties in balancing stricter liquidity requirements with the government's goal of expanding lending to the real economy.

Conclusion

In conclusion, it can be stated that the implementation of Basel III requirements in Uzbekistan's commercial banking sector plays a decisive role in enhancing the resilience and stability of the financial system. The comparative analysis shows that Uzbekistan has already adopted conservative capital adequacy requirements that are stricter than Basel III standards, which strengthens the capitalization of banks and increases the system's ability to absorb potential shocks. At the same time, compliance with liquidity coverage and stable funding ratios demonstrates that commercial banks are capable of maintaining short-term and long-term stability, although challenges remain in diversifying funding sources and balancing liquidity with credit expansion.

Furthermore, the study highlights that the leverage ratios of commercial banks in Uzbekistan are above the Basel III minimum, reflecting a relatively safe balance sheet structure. However, as reforms progress and banks become more integrated with international financial markets, sustaining these safe levels will require continuous improvements in risk management, governance, and capital planning.

From a strategic perspective, the adoption of Basel III standards not only mitigates systemic risks but also creates opportunities for Uzbek banks to strengthen investor confidence, access international capital, and improve competitiveness in the global financial system. Nevertheless, successful implementation requires a balanced approach: while ensuring compliance with international regulatory standards, policymakers and banks must also support economic growth through sustainable credit expansion and efficient resource allocation.

Therefore, the future development of Uzbekistan's banking sector depends on a dual strategy: maintaining strong capital and liquidity buffers in line with Basel III, while simultaneously pursuing structural reforms, digital transformation, and diversification of funding sources. Such a strategy will ensure that commercial banks in Uzbekistan achieve both regulatory compliance and sustainable financial performance in the long term.

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