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ASSESSMENT OF THE STATE OF TAJIKISTAN'S BANKING SYSTEM AND WAYS TO MANAGE ITS RISKS IN THE DIGITAL ECONOMY

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Abstract

A study on assessing the state of the banking system of Tajikistan and how to manage its risks in the digital economy is presented. The authors note that the banking and financial system of any country is an important part of strengthening the economic stability and development of the country. Recently, the financial sector in Tajikistan has become an important way to ensure the economy and development of the country in the context of the digital economy and globalization. The essence of assessing the state of the banking system and ways of managing risks in the digital economy is more aimed at promoting the process of stabilizing the country's financial market and regulating financial risks that may affect the stability of the country's economy.

Keywords

bank, banking system, banking risks, banking operations, credit institutions, financial institutions, central bank, analysis, assessment, etc.

At the current stage of development of the national economy, digital and information technologies play a key role. Because thanks to them, the relationship between the population and the real sector of the country has improved, and the continuation of this trend has increased the ability to ensure the effectiveness of the country's economic and social development.

It should be noted that the digital revolution is also observed in the activities of credit institutions of the Republic of Tajikistan, and on this basis credit institutions are increasingly directing their financial resources to the introduction of

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digital methods and technologies in their activities and the creation of new innovative operations and services based on them.

The analysis shows that now digitalization has not only improved the coverage of customers with banking services, but also contributed to improving the efficiency of credit institutions, creating the necessary conditions for increasing their income.

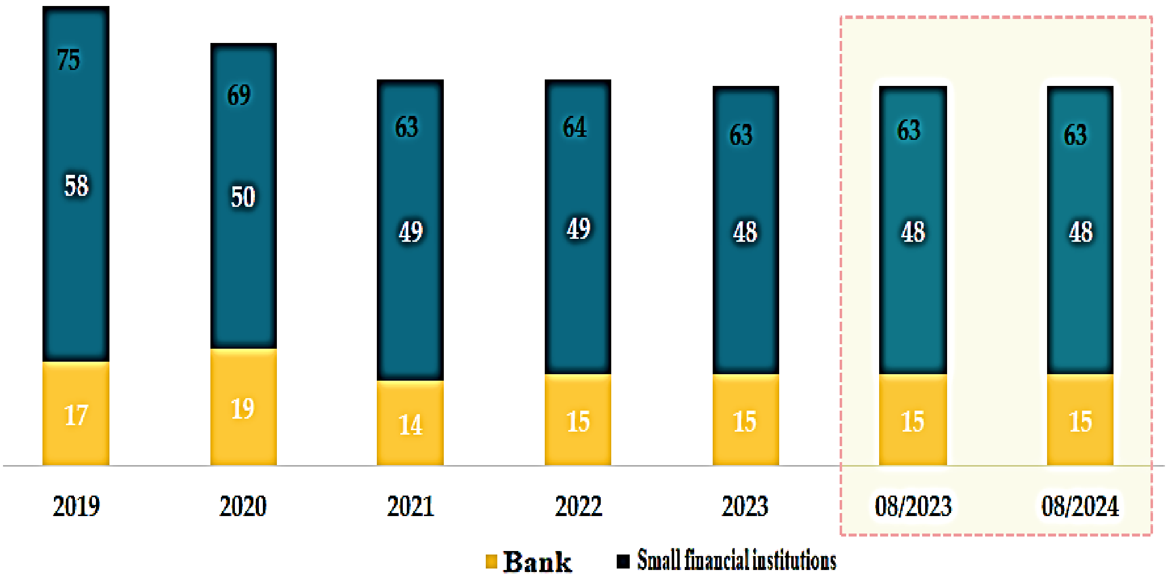
Now we will consider the current state of the banking system of the Republic of Tajikistan from 2019 to the present to determine the extent to which they have had a positive impact on the development of the national economy.

At the end of the reporting period, 63 credit institutions were operating in Tajikistan, including 15 banks (1 Islamic bank), 20 microcredit savings institutions, 3 microcredit institutions and 25 microcredit funds.

Despite the decrease in the number of credit institutions, their financial indicators over the past 5 years have grown due to organizations conducting correct and healthy activities.

The number of structural divisions of financial and credit institutions at the reporting date amounted to 1,907 units and increased by 21 units compared to the same period in 2023 (Figure 1).

Figure 1. Dynamics of the structure of credit institutions of the Republic of Tajikistan, in figures



Source: Official website of the National Bank of Tajikistan: https://nbt.tj/tj/suboti-moliyavi/sharhi-rushdi-nizomi-moliyav.php

It should be noted that the increase in the structural divisions of credit institutions contributes to increasing the availability of financial services for the

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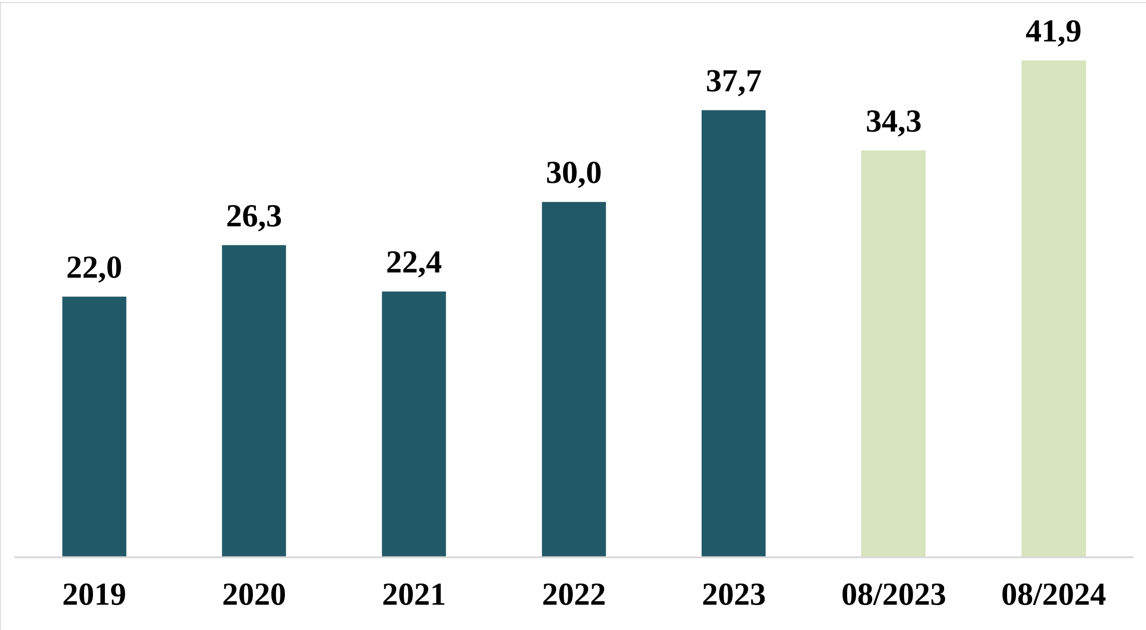
population, and it is necessary that financial and credit organizations continue their activities in the direction of expanding access for the population, especially the remote population of the country.

The assets of financial and credit institutions as of August 31, 2024 amounted to 41 929.7 million somoni and increased by 7 673.0 million somoni or 22.4 percent compared to the same period in 2023, mainly due to an increase in the balance of the loan portfolio and funds receivable from the National Bank of Tajikistan. In the structure of assets of financial and credit institutions, the share of the loan portfolio is 43 percent and practically did not change compared to the same period in 2023. The remaining assets consist of cash and current accounts, interbank loans, investments, fixed assets and other assets. It should be noted that almost 50 percent of the assets of credit institutions are profitable assets (Figure 2).

Figure 2. Dynamics of assets of credit institutions, in billion somoni



Source: Official website of the National Bank of Tajikistan: https://nbt.tj/tj/suboti-moliyavi/sharhi-rushdi-nizomi-moliyav.php

It can be seen from the assets of credit institutions that 46% of the assets of financial and credit institutions in the reporting period belong to systemic banks. The share of other banks and commercial banks is 28.6%, foreign banks - 10.8%, commercial banks - 14.9%.

We fully see the final result of the activities of the commercial banking system in the confidence of the population and the promotion of the development of the national economy. Therefore, we need to analyze the basis of the banking system,

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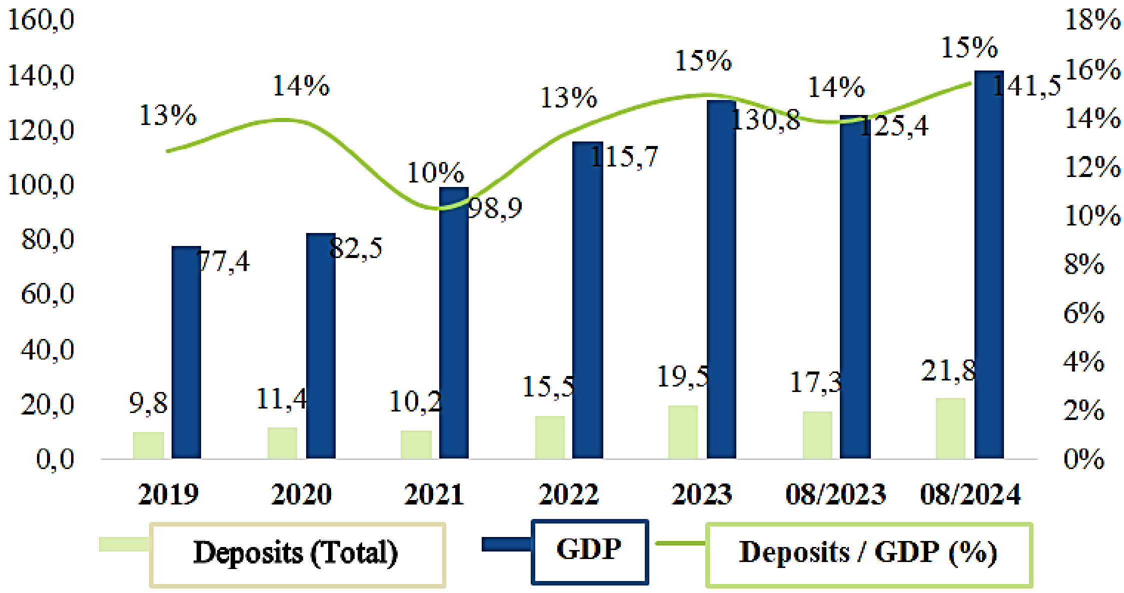
such as the savings of the population and the contribution of the banking system to the development of the economy (Figures 3 and 4).

Figure 3. Public confidence in the banking system (savings in relation to GDP)



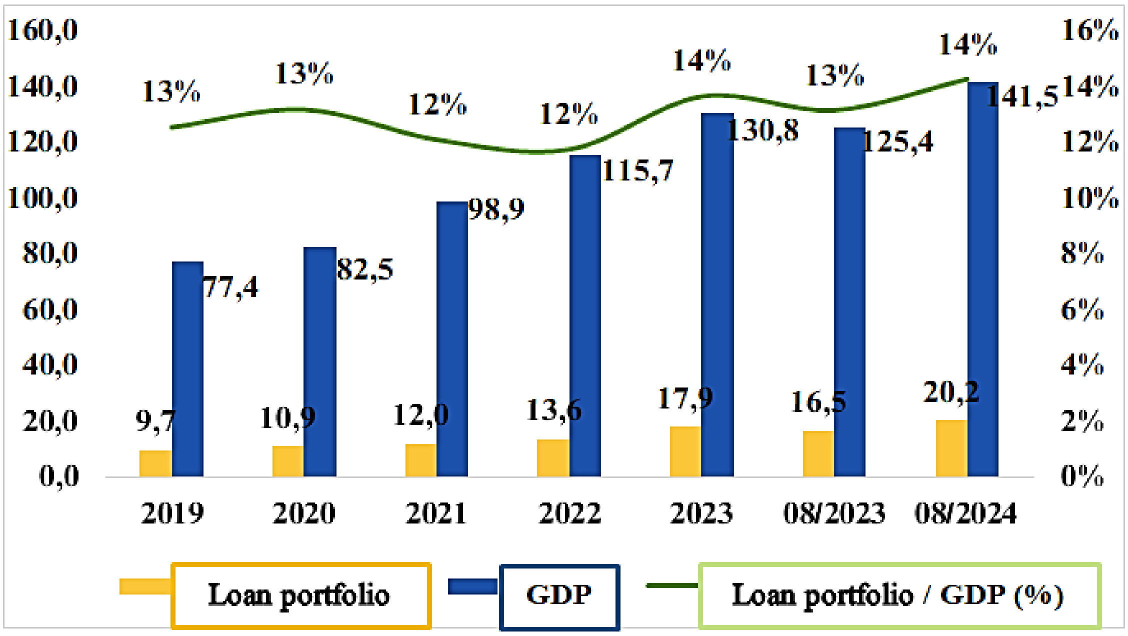
Source: Official website of the National Bank of Tajikistan: https://nbt.tj/tj/suboti-moliyavi/sharhi-rushdi-nizomi-moliyav.php

As everyone knows, one of the main tasks of financial and credit organizations as a financial intermediary is to attract as many deposits as possible. Deposits of financial and credit institutions at the reporting date amounted to 21 794.0 million somoni, and compared to the same period in 2023 increased to 4 487.2 million somoni or 25.9 percent. The increase in deposits attracted by the banking system is a good trend, and financial and credit organizations are stepping up their activities in this area.

The deposit indicator is 15 percent of GDP and increased by 5 percentage points compared to the end of 2021.

In the analyzed period, the balance of the total loan portfolio of financial and credit institutions as of the reporting date amounted to 20 191.9 million somoni, compared to the same period in 2023, it increased by 3 649.5 million somoni or 22.1 percent, which is due to an increase in the provision of loans to individuals and small and medium-sized businesses (see Figure 4).

Figure 4. Contribution of the banking system to economic development (loan portfolio in relation to GDP)



Source: Official website of the National Bank of Tajikistan: https://nbt.tj/tj/suboti-moliyavi/sharhi-rushdi-nizomi-moliyav.php

As can be seen from this graph, over the past 5 years, the loan portfolio of credit institutions has been continuously increasing, which is considered a positive indicator. Over the past five years, the balance sheet of the credit portfolio of credit institutions has increased by more than 2 times.

The rest of the loan portfolio by type of financial and credit institutions 78.3% belongs to banks, 21.7% - to small financial institutions.

The loan portfolio indicator in relation to GDP is 14 percent, compared with the end of 2022, it increased by 2 percentage points, and this indicator indicates a gradual increase in the contribution of the banking system to the economy.

The National Bank of Tajikistan, in accordance with international standards and best practices, as well as in accordance with its legal norms, establishes acceptable accounting standards and procedures for credit institutions and uses them in exercising control. The banking system of the Republic of Tajikistan currently has 20 acceptable standards.

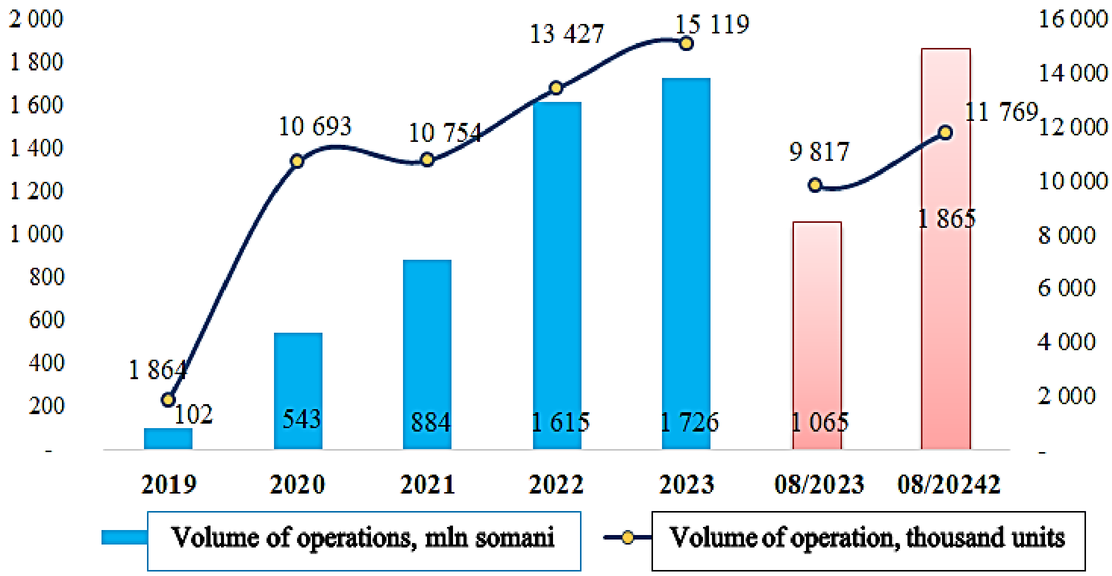
Regulated capital is equal to the product of the sum of net capital and incremental capital. The net capital of a credit institution is actually paid authorized capital, additional (the amount resulting from the positive difference between the selling price and the nominal value of the placed shares of the credit institution (shares) and the additional amount paid by the founders), reserve capital, retained earnings, profit for the previous year after income tax and approval of an external audit with a deduction for losses of the current and previous years, intangible assets with a deduction for accrued depreciation, shares It consists of (shares) of other financial institutions and the unorganized part of the fund for covering possible losses.

Additional capital, in turn, at the expense of reserves and general funds (up to 1.25% of risk-weighted assets), provision for revaluation of fixed assets and securities, other reserves, profit of the current year, profit of the previous year, qualified subordinated loans (no more than 50% of net capital) [4].

When net fixed capital exceeds additional capital, the regulated capital is equal to the sum of net fixed capital and additional capital.

In modern conditions, one of the ways to transition to a digital economy is to pay for goods and services through electronic wallets. Therefore, a basic analysis of the situation with payment transactions for goods and services through electronic wallets is not without importance for our topic under study (Figure 5).

Figure 5. Number and volume of transactions for payment of goods and services through electronic wallets



Source: Official website of the National Bank of Tajikistan: https://nbt.tj/tj/suboti-moliyavi/sharhi-rushdi-nizomi-moliyav.php

In January-August 2024, a total of 74.1 billion somoni were carried out through electronic means of payment - payment cards and electronic wallets, of which 18.6 billion somoni were transactions for non-cash payments for goods and services. Compared to the same period last year, the volume of non-cash transactions increased 2.2 times or by 10.3 billion somoni.

Based on the results of the study, it became clear to us that digitalization of activities brings credit institutions a number of advantages (reducing the costs of credit institutions, improving the quality of services provided, increasing the client base of credit institutions and increasing their profits) and their clients (such as: facilitating customer access to operations and services of credit institutions, improving the quality of banking operations and services of credit institutions, increasing customer transparency, etc.).

Along with such advantages, in the process of digitalization of activities, credit organizations and their clients face such risks (Table 1).

Table 1. Digitalization risks for credit institutions and their clients

For credit institutions	For customers
Strategic; Operational; Percentage; Cyber risk; Marketing; Personnel risk; Data management risk; Combating money laundering and terrorist financing; Prestige.	Low digital literacy; Cyber fraud and fraud; Confidentiality of information; System errors; Failure of certain banking operations and services; Increase the volume of customer loans by facilitating access to loans for them.

Source: Prepared by the authors

Consider each of these risks separately:

Strategic risk is a risk that depends on the correct determination of the procedure for introducing digital technologies and their use in the process of activities of credit institutions [4]. Because with the wrong choice or use of digital technologies, the cost of banking operations and services increases, and their quality decreases, which leads to a decrease in the number of customers of credit institutions.

Due to the fact that the basis of the activities of credit institutions is the provision of specific types of banking operations and services, credit institutions in the course of their activities are more susceptible to operational risks. The occurrence of operational risk depends on the mistakes of employees of credit institutions (incorrect processing of customer data or incorrect input of data into systems, etc.), incorrect provision of information by customers, failure of internal systems and technologies of credit institutions, cases of external fraud, etc.

Another risk is interest rate risk. The main cause of interest rate risk is the availability of banking operations and services via the Internet by credit institutions. Because through the Internet, the client gets access to banking operations and services of credit institutions with suitable interest rates.

Cyber risks cover risks arising from illegal actions of third parties (hackers) against computer systems, information and networks of credit institutions, as a result of which the databases of credit institution clients are disabled, confidential data of credit institution clients are available to hackers [4].

In addition, with the digitalization of the activities of credit institutions, customers are increasingly turning to money transfers 24/7, as a result of which, depending on the increase or decrease in customer funds in credit institutions, the volume of their reserves changes, and finally, this situation contributes to the emergence of market risk of credit institutions [8].

Domestic and foreign experience shows that the final result of the activities of any organization (its success or failure) depends on the professional and personal qualities of each of its employees, and with a low level of these qualities, a personnel risk arises for the organization (including credit organizations).

At the same time, the digitalization of the activities of credit institutions generates a number of situations, such as: the emergence of high-speed and irreversible operations, an increase in the anonymity of situations, the lack of information about operations and services of credit institutions., The absence of restrictions on the amount of money, etc., which as a result of such situations leads to the "risk of combating money laundering and financing terrorism" [6].

It is worth noting that as these risks arise and the degree of their impact increases, the level of customer confidence in credit institutions, their operations and services decreases, which ultimately contributes to an increase in the risk of the influence and reputation of credit institutions.

The result of a study of the banking services market showed that now a significant part of the country's population does not use remote (digital) banking services, and another part of the population tries to pay the cost of goods and services only in cash., Which is associated with a low indicator of the level of digital literacy of the population (customers of credit institutions), this situation indicates the emergence of security risks and fraud (due to the growth of cyberattacks by fraudsters (phishing, hackers, etc.) into the internal systems of credit institutions) and in this regard leads to the existence of a risk of confidentiality of customer data.

Moreover, when digitalizing credit institutions, customers face the risk of systemic errors. This risk can also arise for various reasons, including due to the low speed of the Internet and its inaccessibility in some regions of the country, the

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use of old methods and technologies by credit institutions, problems in server and mobile applications of credit institutions, etc. [6]. If there is a risk of systemic errors, some of the operations and services of credit institutions are implemented inefficiently, and some even remain inactive.

However, along with these risks, the digital revolution in credit institutions expands the capabilities of customers and improves their access to banking services, which leads to an increase in the share of customer requests for loans. Because in this case, even when customers do not need a loan, they turn to loans from credit institutions to cover their small daily expenses.

Analyzing the impact of digitalization on the activities of credit institutions and their clients, it was found that along with specific advantages, this process has many risks. Domestic and foreign experience shows that it is impossible to get away from danger, but one should only manage it. On this basis, credit institutions are obliged to take measures to eliminate digital risks. One of these measures is the definition of a specific digital risk management system and the consistent implementation of its stages (Figure 6).

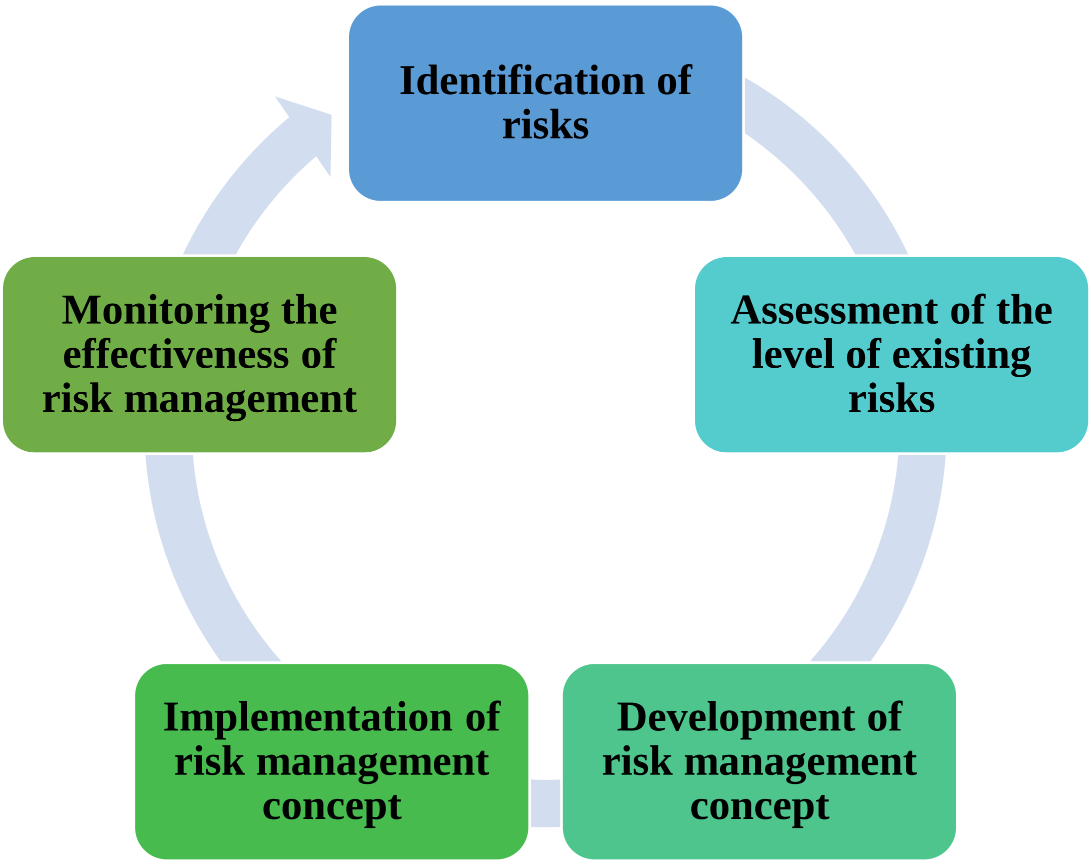

Figure 6. Stages of digital risk management in credit institutions

According to Figure 1, the risk management process in credit institutions consists of 5 stages, and at the first stage all risks that can be seen in certain areas of credit institutions are determined, and here credit institutions use various methods, including: the method of expert assessment, methods of qualitative and quantitative analysis, etc., which they use [5].

Then credit institutions determine the level of risks and the amount of losses that may arise in connection with this, and reduce the level of influence of existing risks. That is why credit institutions have developed a "Risk Management Perspective," which includes the main measures and ways to eliminate the possibility of new risks and reduce current risks.

At the next stage, credit institutions will begin to implement this perspective, the basis of this process is the correct development of the Risk Management system in credit institutions.

Then, in order to assess the effectiveness of the Risk Management system, credit institutions monitor the quality of risk management, the result of which determines the effectiveness of measures implemented in the direction of risk management.

Thus, we can conclude that the digital risk management system is a complex mechanism consisting of several stages, during each of which all levels of management of credit institutions participate. Also, in order to implement the risk management strategy, each internal unit of a credit institution is obliged to timely fulfill its obligations and regularly analyze the work done to identify problems.

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