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ANALYSIS OF THE FINANCIAL EFFICIENCY OF COMMERCIAL BANKS AND THE FACTORS INFLUENCING IT

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Abstract

This article presents an extended analysis of the financial efficiency of commercial banks and the key factors influencing it. The research focuses on evaluating key performance indicators such as profitability, liquidity, capital adequacy, and asset quality of commercial banks in Uzbekistan from 2019 to 2023. It also explores both internal and external determinants, including interest rate policies, technological transformation, regulatory environment, and macroeconomic conditions. Statistical tables and charts illustrate financial trends across several years. Finally, the paper offers practical recommendations for enhancing the financial sustainability, operational efficiency, and strategic resilience of the banking sector in Uzbekistan.

Keywords: Financial efficiency, commercial banks, profitability, liquidity, capital adequacy, asset quality, digital transformation, Uzbekistan.

Introduction

Commercial banks are the backbone of financial systems in modern economies. Their ability to operate efficiently not only ensures profitability but also determines the stability and competitiveness of the national financial system. In recent years, Uzbekistan's banking sector has undergone significant reforms aimed at increasing transparency, competition, and technological adoption. Therefore, evaluating financial efficiency has become essential for identifying strengths, weaknesses, and opportunities for growth.

Financial efficiency refers to the ability of a bank to use its assets and capital to generate maximum profit with minimal risk. The key indicators include:

- Return on Assets (ROA): Measures how effectively a bank utilizes its assets.
- Return on Equity (ROE): Indicates the return to shareholders.
- Net Interest Margin (NIM): Reflects profitability from core banking operations.
- Capital Adequacy Ratio (CAR): Evaluates financial stability.
- Non-performing Loans (NPL) Ratio: Represents credit risk and asset quality.

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Table 1. Key Financial Indicators of Commercial Banks in Uzbekistan (2019–2023)

Year	ROA (%)	ROE (%)	CAR (%)	Liquidity (%)	NPL (%)
2019	1.2	12.3	18.0	38.5	3.6
2020	1.0	10.8	17.4	40.2	4.0
2021	1.4	13.6	16.8	41.7	3.2
2022	1.6	15.2	15.5	39.9	2.8
2023	1.8	16.7	14.9	42.3	2.5

The financial performance of banks is shaped by a combination of endogenous (internal) and exogenous (external) factors:
Management Quality: Strategic decisions and leadership determine cost efficiency and innovation. Operational Cost Control: Low administrative and service delivery costs improve margins.
Risk Management Practices: Efficient credit risk assessment reduces defaults and NPLs. Service Diversification: Broader service portfolios lead to diversified income streams.
Macroeconomic Environment: Inflation, GDP growth, and interest rate policies affect performance. Regulatory Framework: Capital requirements, prudential norms, and legal changes influence strategy.
Digital Transformation: Use of technology in operations reduces costs and expands service access.
Digitalization has redefined banking operations. The introduction of mobile apps, AI-driven services, and remote banking has reduced overhead, improved customer experience, and enabled 24/7 transactions. As a result, banks with advanced digital capabilities demonstrate better efficiency ratios.

Table 2. Financial Efficiency of Banks Based on Digitalization Level (2023)

Bank Type	Digital Investment (% of Budget)	ROA (%)	Cost-to-Income Ratio (%)
High-Tech Banks	15%	1.9	38
Mid-Level Banks	7%	1.3	49
Traditional Banks	3%	0.9	61

The liberalization of Uzbekistan's financial sector has led to increased competition. Entry of foreign banks and private domestic banks has created pressure on state-owned institutions to innovate. Competitive pressure pushes banks to optimize resource allocation, introduce new products, and align more closely with customer demands, thereby indirectly enhancing financial efficiency.
Enhance Risk Management: Improve credit scoring systems and internal control frameworks.
Invest in Digital Infrastructure: Upgrade legacy systems to real-time processing platforms.
Boost Human Capital: Train staff in financial analytics, compliance, and digital technologies.
Improve Governance: Adopt international standards in transparency and accountability. Encourage Product Innovation: Tailor services to SMEs, youth, and underserved regions.

Conclusion

The financial efficiency of commercial banks is a cornerstone of economic development and financial inclusion. Uzbekistan's banking sector shows improving trends, but efficiency gaps persist between public and private players. Embracing technology, strengthening regulatory capacity, and advancing corporate governance will be vital for sustaining growth and resilience in the banking industry.

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