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WAYS TO IMPROVE FOREIGN CURRENCY OPERATIONS IN COMMERCIAL BANKS

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Abstract: This article examines the ways to improve foreign currency operations in commercial banks of Uzbekistan from both theoretical and practical perspectives. The structure, volume, and efficiency of currency operations are analyzed based on statistical data. Advanced methods of developing currency operations in commercial banks in international practice are reviewed. Based on the research findings, scientific and practical recommendations aimed at improving the efficiency of currency operations in Uzbekistan's commercial banks have been developed.

Keywords: foreign currency operations, commercial bank, exchange rate, currency risk, financial inclusion, digital payment, international settlement, export-import.

1. Introduction

In the context of globalization of the world economy, the importance of currency operations in commercial banks is increasing sharply. Currency operations serve as an important source of bank income, performing functions of financing foreign economic activity, executing export-import settlements, and managing currency risk. Currency liberalization reforms implemented in Uzbekistan since 2017 significantly expanded the volume of commercial bank currency operations and intensified competition in this area.

According to the Central Bank of Uzbekistan, the total volume of currency operations of commercial banks reached USD 74.7 billion in 2024, which is 2.1 times more than USD 36.0 billion in 2020 (Central Bank, 2024). However, a number of problems in currency operations — insufficient currency risk management, low share of digital channels, and limited compliance with international standards — are reducing efficiency.

Therefore, studying ways to improve currency operations in commercial banks, analyzing advanced international experience, and developing recommendations adapted to Uzbekistan's conditions are of urgent scientific and practical importance. The aim of this article is to analyze the current state of currency operations in Uzbekistan's commercial banks and substantiate directions for their improvement.

2. Literature review

The issue of improving currency operations in commercial banks has been widely studied in international economic literature. Mishkin and Eakins (2018) analyzed the main types of currency operations in commercial banks — spot, forward, swap, and option transactions — defining their profitability and risk characteristics. According to the authors, without an effective currency risk management system, international competitiveness of commercial banks is difficult to ensure.

The Bank for International Settlements (BIS, 2022) in its triennial report analyzed the volume and structure of global currency markets, showing that daily trading volume reached USD 7.5 trillion

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in 2022. BIS (2022) emphasized that the development of digital currency instruments is fundamentally transforming the structure of traditional currency operations.

In their classic study, Giddy and Dufey (1992) analyzed methods of managing currency positions in commercial banks, substantiating the importance of hedging strategies in minimizing open currency position risk. In Uzbekistan studies, Vahobov and Malikov (2022) identified weaknesses in currency risk management in commercial banks, particularly showing the limited currency risk assessment methodology for small and medium banks.

In the IMF (2023) report's recommendations on developing Uzbekistan's financial sector, digitizing currency operations in commercial banks, full SWIFT integration, and strengthening compliance with Basel III requirements are identified as priority directions.

3. Research methodology

The methodological basis of the research consists of banking theory, the concept of currency relations, and comparative institutional analysis methods. The research employed systematic approach, comparative analysis, statistical analysis, dynamic series analysis, and monographic analysis methods.

The information base of the research consists of official statistical data from the Central Bank of Uzbekistan, Statistics Agency, Ministry of Finance, Bank for International Settlements (BIS), International Monetary Fund (IMF), and World Bank, as well as scientific works of local and foreign scholars.

4. Analysis and discussion of results

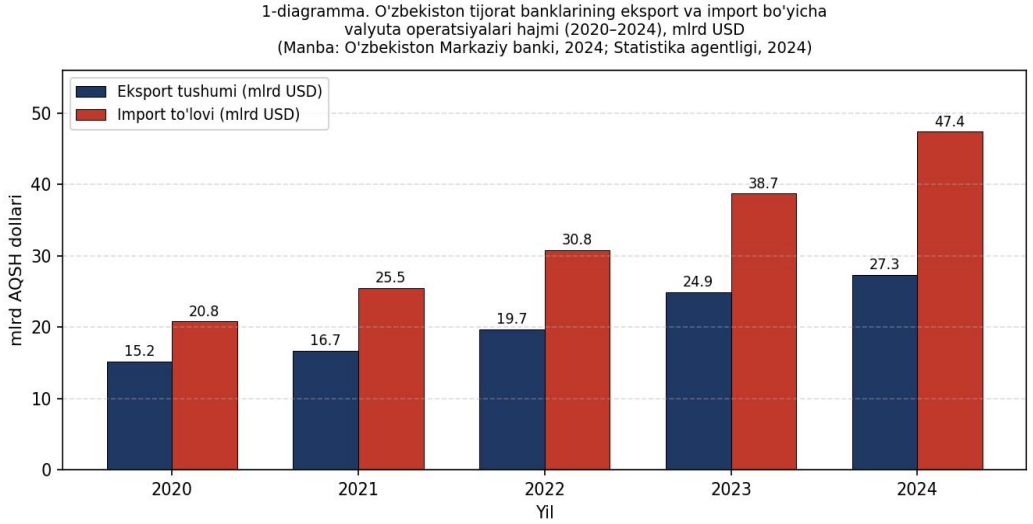
The main indicators of currency operations in Uzbekistan's commercial banks are presented in Table 1, with their dynamics shown in Figures 1 and 2.

Table 1
Key indicators of currency operations in Uzbekistan's commercial banks (2020–2024)

Indicator	2020	2021	2022	2023	2024
Total volume of currency operations, bln USD	36.0	42.2	50.5	63.5	74.7
Export currency receipts, bln USD	15.2	16.7	19.7	24.9	27.3
Import payments, bln USD	20.8	25.5	30.8	38.6	47.4
Total remittances, bln USD	8.1	9.4	10.3	11.2	12.8
Official USD/UZS rate (year-end)	10,350	10,609	11,050	11,900	12,700
Currency assets of commercial banks, %	38.4	41.2	43.7	46.1	48.3
Share of digital currency payments, %	12	18	26	34	42

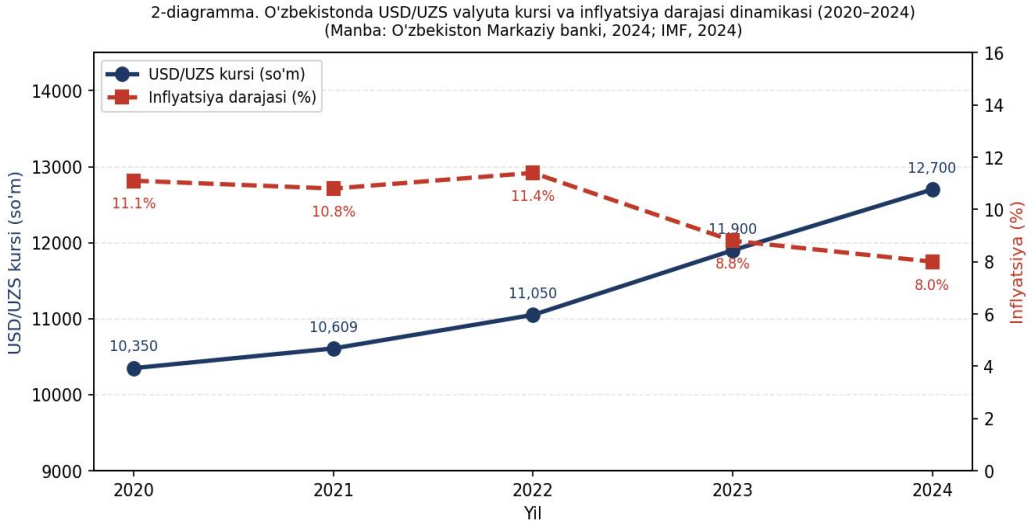
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Source: Compiled by the author based on Central Bank of Uzbekistan (2024); Statistics Agency (2024); IMF (2024) data.



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As shown in Figure 1, export receipts of Uzbekistan's commercial banks grew from USD 15.2 billion in 2020 to USD 27.3 billion in 2024 — a 1.8-fold increase. Import payments increased from USD 20.8 billion to USD 47.4 billion — a 2.3-fold increase. The faster growth of import payments compared to export receipts is intensifying currency balance imbalances and complicating currency position management for commercial banks.



Source: Compiled by the author based on Central Bank of Uzbekistan (2024); IMF (2024) data.

Figure 2 shows that during 2020–2024, the official USD/UZS exchange rate increased from 10,350 to 12,700 soums — a 22.7% rise. At the same time, the inflation rate decreased from 11.1% to 8.0%. The steady growth of the exchange rate indicates the need for special attention to managing open currency positions in commercial banks.

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Table 2

Problems of currency operations in Uzbekistan's commercial banks and directions for improvement

Problem	Cause	Direction for improvement
Weak currency risk management system	Limited hedging instruments	Developing forward, swap, option markets
Low share of digital currency payments	Infrastructure and literacy deficiencies	Implementing API integration and digital platforms
High SWIFT transaction costs	Long correspondent bank chain	Expanding direct correspondent banking relationships
Complex currency control procedures	Bureaucratic procedures	Digitizing and simplifying procedures
Concentration of currency assets	USD dominance (85%)	Diversifying the currency basket

Source: Compiled based on Central Bank of Uzbekistan (2024); IMF (2023); author's analysis.

The table data shows that there are five main problems in currency operations of Uzbekistan's commercial banks. The most serious problem is the weakness of currency risk management. As IMF (2023) experts noted, forward and swap markets in Uzbekistan's commercial banks are insufficiently developed, which limits the ability to cover losses from exchange rate fluctuations. Additionally, the 85% share of US dollars in the currency asset structure creates concentration risk.

5. Conclusions and recommendations

The research findings show that the volume of currency operations in Uzbekistan's commercial banks increased 2.1-fold during 2020–2024, reaching USD 74.7 billion. The share of digital currency payments rose from 12% to 42%. However, the weakness of the currency risk management system, limited hedging instruments, and high dollarization of currency assets (85%) remain key challenges.

The following scientific and practical recommendations have been developed:

First, developing the currency hedging market — commercial banks should establish markets for forward contracts, currency swaps, and currency options. This will reduce risk arising from exchange rate fluctuations.

Second, implementing digital currency platforms — creating a real-time currency conversion system based on API integration. This can reduce currency operation costs by 30–40%.

Third, expanding the correspondent banking network — reducing intermediary costs by establishing direct correspondent banking relationships with major banks in the USA, EU, China, and the Middle East.

Fourth, diversifying the currency basket — reducing dependence on USD by increasing the share of operations in EUR, CNY, and other currencies.

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Fifth, fully implementing Basel III currency risk standards — this will increase international investor confidence and expand commercial banks' ability to attract foreign capital.

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