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ADVANCED FOREIGN EXPERIENCE IN STRENGTHENING THE FINANCIAL STABILITY OF BANKS: THE CASE OF THE UNITED STATES

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Abstract: This article examines international best practices in strengthening the financial stability of banks, with particular emphasis on the experience of the United States banking system. The study analyzes the institutional framework and practical approaches employed to ensure and monitor banking sector financial stability. Based on the analysis, relevant conclusions are drawn regarding the organization and effectiveness of financial stability supervision in the banking system.

Keywords: financial stability of banks, Federal Reserve System, return on assets, return on equity, banking performance, net profit.

INTRODUCTION

The banking system of the United States is considered one of the most noteworthy banking systems among developed economies. Therefore, examining various aspects of the mechanisms used to ensure the financial stability of banks in this country is of particular relevance.

The Federal Reserve System (the Fed), which serves as the central bank of the United States, monitors the financial stability of banks in cooperation with the Financial Stability Oversight Council (FSOC). The Council was established pursuant to the Dodd–Frank Wall Street Reform and Consumer Protection Act, adopted in 2010, and is chaired by the U.S. Secretary of the Treasury. The Financial Stability Oversight Council brings together the Federal Reserve System and other federal and state financial regulatory authorities to identify risks that may threaten financial stability in a timely manner, strengthen market discipline, and develop guidelines for responding to emerging financial challenges. The Chair of the Federal Reserve is a member of the Council. Thus, the Federal Reserve, in cooperation with the Council and other government institutions, participates in monitoring the financial stability of banks.

LITERATURE REVIEW

The analysis of banks' financial stability is of considerable importance and has been the subject of numerous academic studies. In his research, D. McNaughton emphasizes that 60 percent of commercial bank failures in the United States result from ineffective performance of bank boards and the passivity of supervisory boards [1].

J. Arcand, E. Berkes, and U. Panizza examine the relationship between economic growth and the volume of aggregate bank lending. Their findings indicate that when the ratio of total credit to GDP exceeds 90–100 percent, it may have a negative impact on a country's economic growth [2].

RESEARCH METHODOLOGY

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The study employs observation, data collection, generalization, and comparative analysis. It also examines the economic perspectives of domestic and foreign scholars on banking supervision, identifies existing challenges in the sector and potential solutions, and reviews relevant legislative and regulatory documents. Based on these methods, conclusions and recommendations are developed.

RESULTS AND DISCUSSION

The Federal Reserve publishes its Financial Stability Report twice a year. The report primarily focuses on analyzing indicators in the following areas: asset valuations, debt burdens of businesses and households, leverage ratios, and funding risks.

The following sections examine the performance of the U.S. banking system through an analysis of its key financial stability indicators.

In the United States, the ratio of commercial bank loans to nominal GDP was approximately 70 percent during the 2008–2009 global financial crisis. However, this indicator has declined over the past three years, reaching approximately 62 percent in 2023. This trend may be associated with rising interest rates, declining credit affordability, and economic uncertainty (Figure 1).

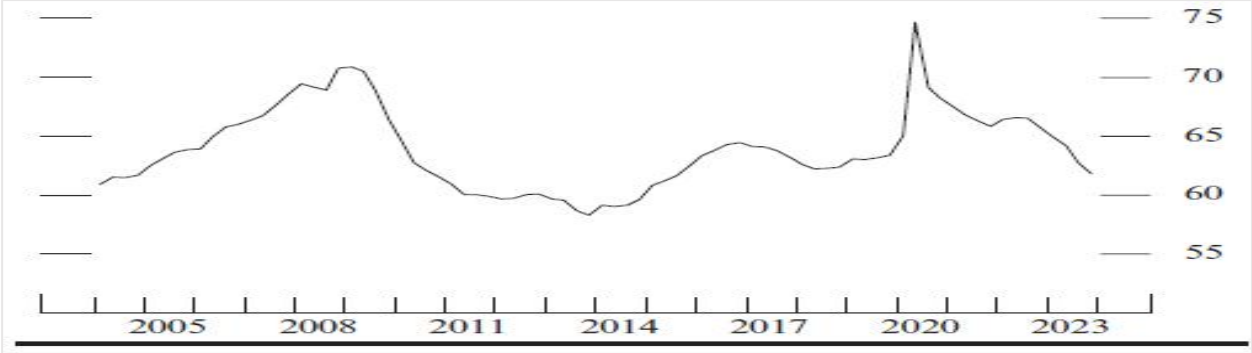
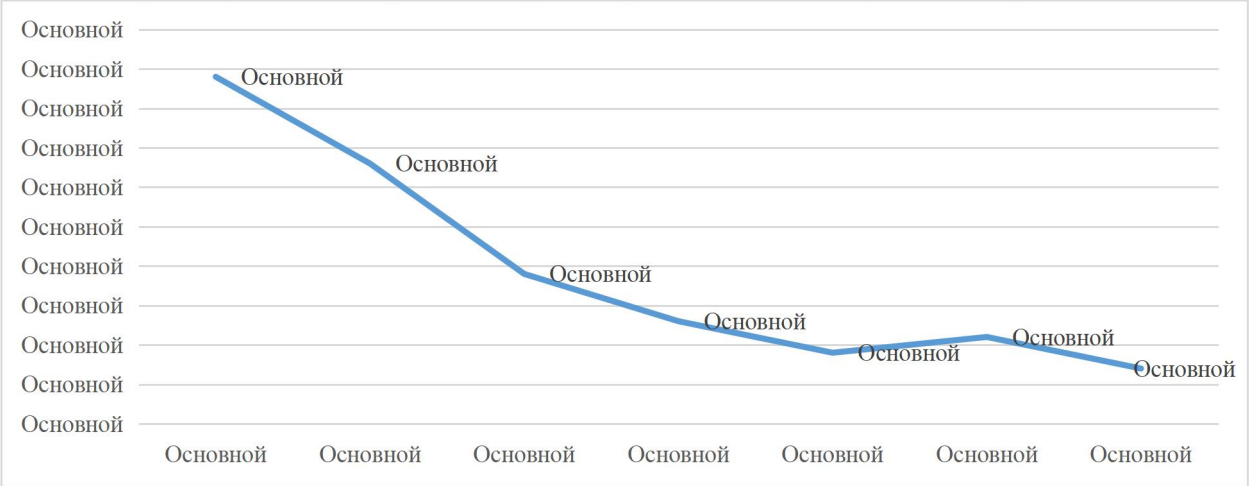


Figure 1. Ratio of total commercial bank loans to nominal GDP, percent[1]

The main indicators used to assess banking performance include return on assets (ROA) and return on equity (ROE). These indicators are also widely used in assessing the financial stability of U.S. banks, as they reflect the profitability and operational efficiency of banking institutions.



[1] Monetary policy report: March 2024//Board of Governors of the Federal Reserve System/pp 30.

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Figure 2. Return on assets and return on equity of U.S. banks, percent[2]

According to the views of U.S. economists, an ROA ratio of approximately 1 percent is generally considered a benchmark level. An examination of the twenty-year trend of this indicator in U.S. banking practice, presented in Figure 2, shows that ROA has fluctuated around an average of 1 percent. During the 2008 global financial crisis, the return on bank assets declined sharply and reached negative values. This was primarily attributable to a substantial increase in non-performing assets held by commercial banks during the crisis. In the post-crisis period, the return on assets of U.S. banks demonstrated an upward trend.

A low level of non-performing assets and a relatively small share of overdue loans in the total loan portfolio play an important role in maintaining a high return on bank assets.

One of the key indicators of the financial stability of the U.S. banking system is the share of overdue loans in total loans. An analysis of this indicator shows that it reached a relatively high level of 4.4 percent in the 2010s, whereas in recent years it has remained at approximately 1–0.7 percent. This trend reflects improvements in the financial stability of the banking system (Figure 3). Based on this dynamic, it can be concluded that the indicator remained within an acceptable range during 2014–2023, indicating an improvement in the financial condition of banks. This represents a positive development from the perspective of strengthening banks' financial stability.

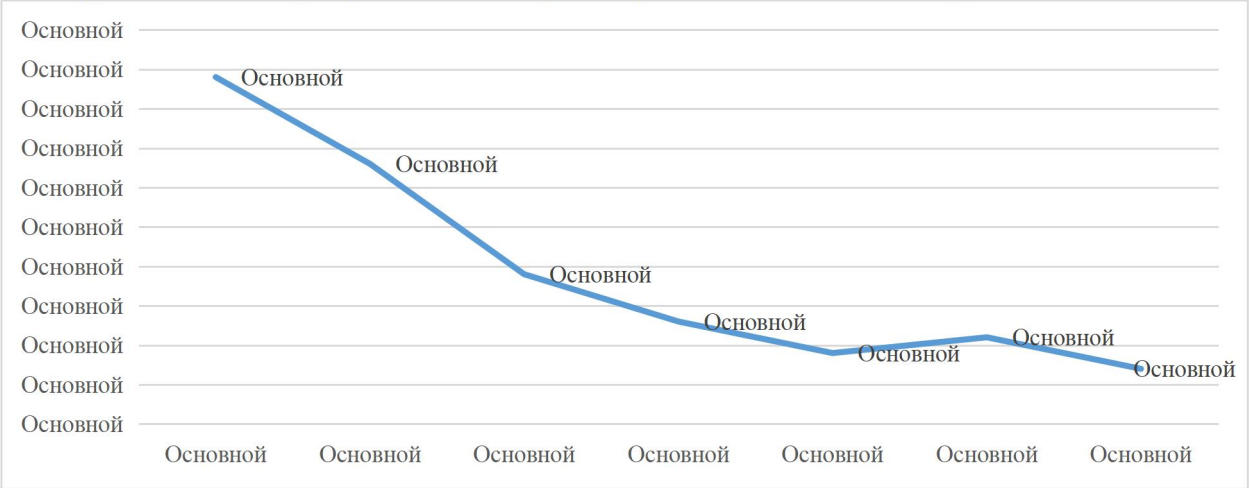


Figure 3. Share of overdue loans in total loans of U.S. banks, percent[3]

Another important indicator characterizing banking performance is return on equity (ROE).

As noted in the previous sections, there is no mandatory regulatory threshold for ROE. However, international banking practice generally considers an average value of 10 percent or higher to be desirable. An analysis of U.S. banking performance reveals that this indicator declined sharply during the global financial crisis, while its average value remained around 10 percent throughout 2011–2023. A considerable decline in return on equity was also observed during the COVID-19 pandemic (Figure 2).

[2] www.worldbank.org

[3] www.worldbank.org

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At the same time, compliance with capital adequacy requirements represents another fundamental indicator of the financial stability of the U.S. banking system. As discussed in the preceding sections, capital adequacy, liquidity, profitability, and asset quality indicators play a central role in assessing the financial stability of banks.

The U.S. banking system operates in accordance with the Basel III framework. An analysis of the ratio of total bank capital to assets shows that this indicator stood at 8.8 percent in the 2010s and increased to 9.4 percent in 2018. In 2020–2022, however, it amounted to 8.6 percent. This may be associated with the full implementation of Basel III requirements after 2017, the introduction of capital buffers, and the significant decline in banking performance indicators caused by the COVID-19 pandemic (Figure 4).

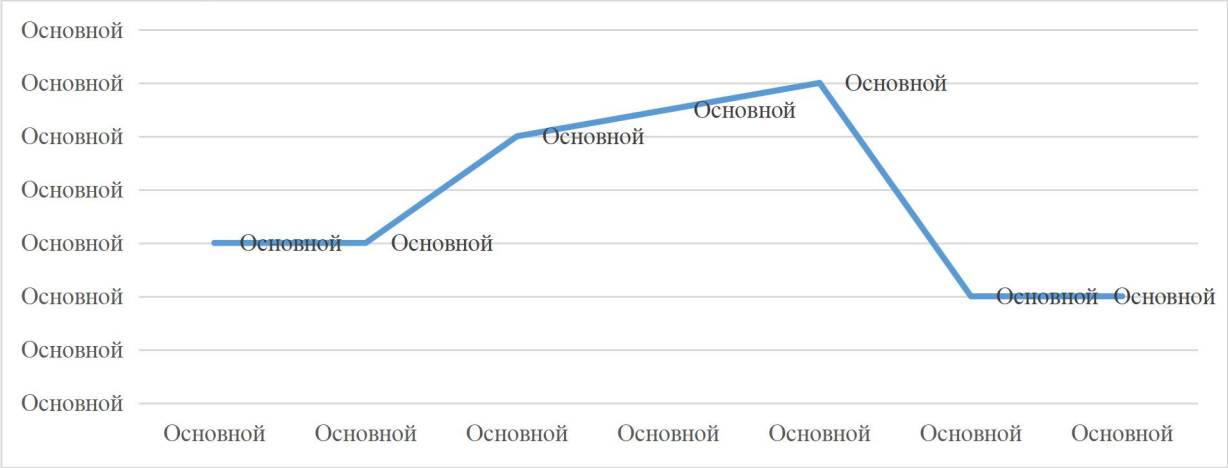


Figure 4. Ratio of capital to assets of U.S. banks, percent

Based on the above analysis, it is also important to consider the overall financial stability indicators of the U.S. banking system and draw relevant conclusions. The data indicate that bank lending accounts for approximately 60 percent of nominal GDP in the United States. Given that a ratio of total loans to GDP exceeding 90–100 percent may negatively affect a country's economic growth [2], it can be concluded that the current level of this indicator in the United States does not indicate a significant adverse impact on economic growth.

The financial stability indicators of the U.S. banking system have been examined above using statistical data. For comparative purposes, it is appropriate to analyze the key financial stability indicators of the banking system of the Republic of Uzbekistan.

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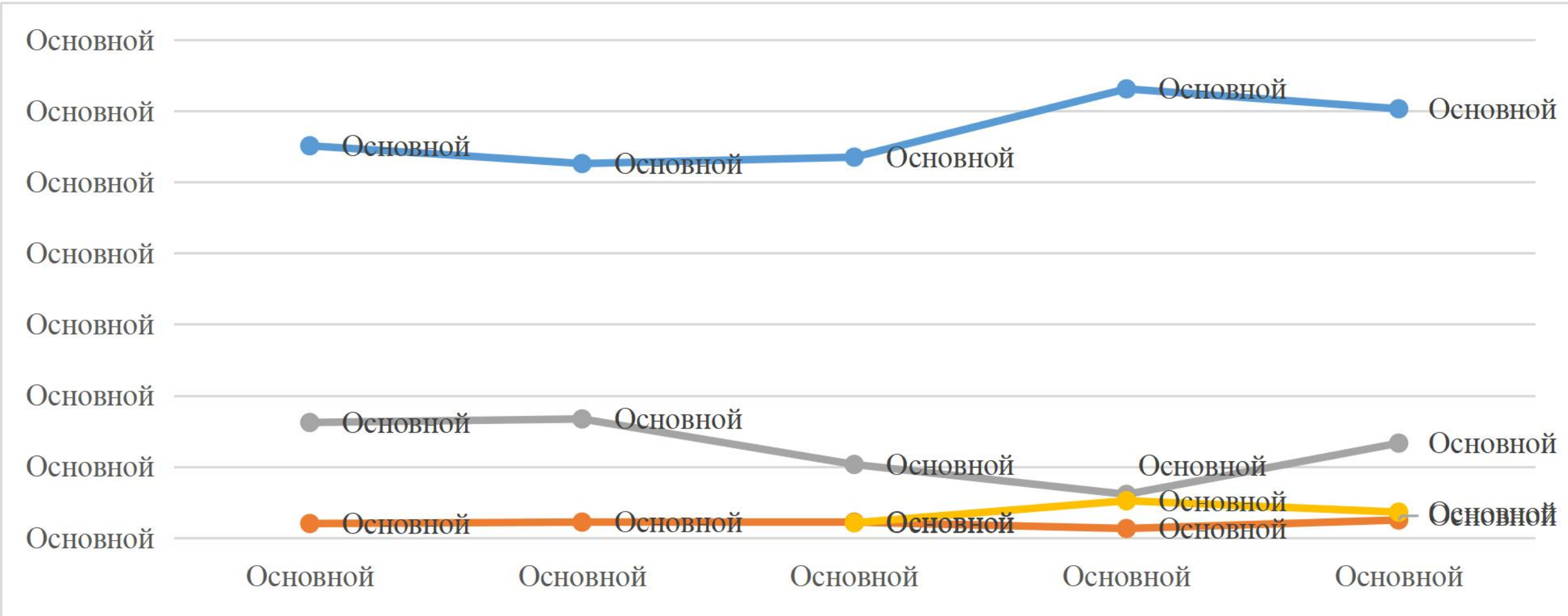


Figure 5. Dynamics of financial stability indicators of the banking system of the Republic of Uzbekistan, percent[4]

The analysis shows that while the average return on assets in the U.S. banking system fluctuated around 1 percent during the period under consideration (2018–2022), the corresponding indicator in the banking system of Uzbekistan averaged approximately 2 percent.

The return on equity ratio averaged approximately 10 percent in the U.S. banking system during 2018–2022, whereas the corresponding average in Uzbekistan's banking system amounted to 12.5 percent.

An analysis of asset quality, measured by the share of non-performing loans in the total loan portfolio, shows that this indicator averaged approximately 1–0.7 percent in the U.S. banking system during the period under consideration, compared with an average of 3.6 percent in Uzbekistan's banking system. It is worth emphasizing that a further reduction in this indicator in Uzbekistan would contribute to improving asset quality and strengthening the financial stability of the banking system.

Since this study focuses on international experience in strengthening the financial stability of banks, particularly the banking system of the United States, a more detailed analysis of U.S. banking practices is appropriate. For this purpose, the study examines JPMorgan Chase Bank, one of the largest commercial banks in the United States and among its systemically important banking institutions.

One of the key indicators of banks' financial stability is asset quality. In assessing asset quality, the ratio of allowances for expected credit losses to average total assets plays an important role. An examination of this indicator at JPMorgan Chase Bank during the period under consideration reveals a positive trend (Figure 6).

According to economists, a ratio of approximately 1–2 percent is generally regarded as a normal level for this indicator. However, in the banking practice of the institution under consideration, the indicator averaged 0.5 percent over the last five years.

[4] cbu.uz

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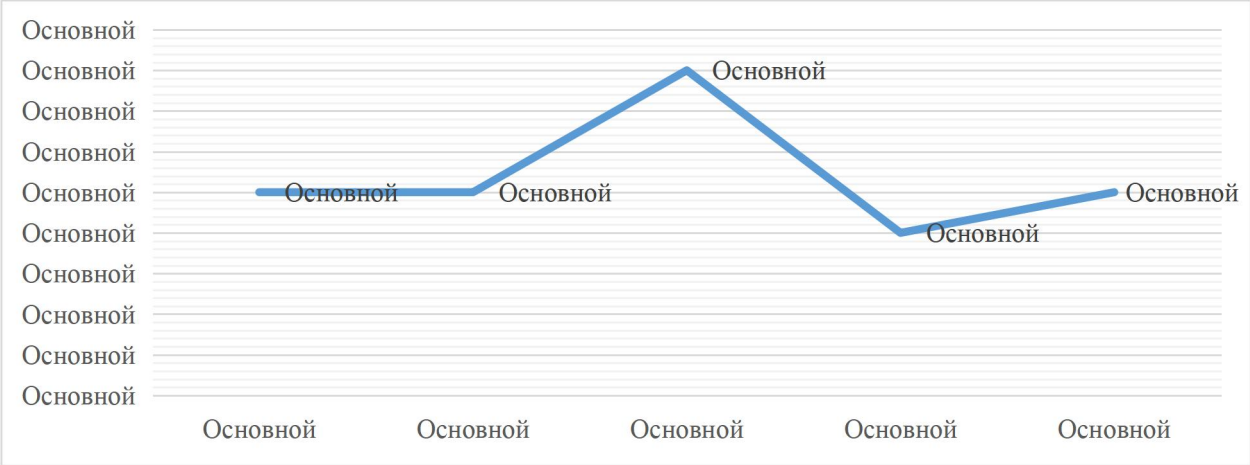


Figure 6. Ratio of allowances for credit losses to average total assets of JPMorgan Chase Bank, percent[5]

The financial stability indicators of commercial banks were further examined using JPMorgan Chase Bank as a case study. The analysis covered banking performance indicators (return on assets and return on equity), capital adequacy indicators (Common Equity Tier 1 capital ratio, Tier 1 capital ratio, total capital ratio, and leverage ratio), and liquidity indicators (short-term liquidity ratio). All the indicators demonstrate that the bank complied with the relevant financial stability requirements and maintained values within the established regulatory limits, confirming its position as a financially stable banking institution.

CONCLUSION

Based on the examination of U.S. experience in strengthening the financial stability of banks, the following distinctive features of its methodological and institutional approaches can be identified:

- **Reforms in the institutional framework for banking supervision.** The Federal Reserve System, as the central bank of the United States, monitors the financial stability of banks in cooperation with the Financial Stability Oversight Council. The Council was established under the Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010 and is chaired by the U.S. Secretary of the Treasury.
- **A comprehensive approach to financial stability assessment.** In analyzing the financial stability of the banking system, the Federal Reserve places particular emphasis on asset valuations, the debt burdens of businesses and households, bank leverage ratios, and funding risks.
- **Implementation of the Basel III framework.** The full implementation of Basel III standards in banking practice has significantly strengthened requirements for commercial banks' capital and liquidity indicators. The introduction of Basel III has resulted in a revision of capital structures, the establishment of capital buffers, and the introduction of two new liquidity indicators. Although these requirements may have had some impact on slowing banks' lending activity, they have contributed to enhancing the competitiveness of banks, strengthening their financial stability, and improving their resilience to external adverse shocks.

[5] JPMorgan Chase & Co.//Annual Reports.

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- **Assessment of the financial stability of JPMorgan Chase Bank.** Based on the bank's financial statements for 2018–2022, the structure of its assets and liabilities was examined. The analysis revealed that securities-related operations and lending activities accounted for the major share of the bank's assets, while deposits represented the principal component of its liabilities. The bank's financial stability indicators remained in compliance with the relevant regulatory requirements throughout the analyzed period.

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