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FINANCIAL CRISES: MEASURES TO MITIGATE THE CONSEQUENCES OF RISKS

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Abstract
Financial crises have a significant impact on the economies of countries and businesses. This article analyzes the main causes of financial risks, their consequences, and measures to mitigate these risks. Methods such as diversification, precautionary planning, and financial monitoring are discussed. The article highlights effective strategies for risk identification and maintaining financial stability.

Keywords: Financial crisis, risk, economic stability, diversification, monitoring.

Introduction

In developing countries like Uzbekistan, the stability of the financial market is not only a guarantee of the national economy but also a key factor ensuring social and political security. Therefore, the scientific study of the essence, types, causes, and mitigation measures of financial crises is of great importance.

The financial market includes the securities market, foreign exchange market, credit market, insurance market, and derivatives market. As a central element of the economy, the financial market allocates capital, attracts investment, and contributes to economic growth. However, under the conditions of globalization of the world financial system, risks and instabilities that lead to financial crises occur frequently, posing threats to overall stability. Hence, addressing the issue of mitigating risk flows is of urgent importance.

For this reason, studying the principles of financial market operations and the factors that cause crises is crucial for ensuring the stability of both the national and global economies.

The main functions of the financial market include mobilizing idle funds and directing them into economic sectors, creating investment opportunities and ensuring the flow of capital, determining market prices of assets, providing liquidity and risk distribution, and contributing to economic growth through the redistribution of resources among business entities.

Literature review

The analysis of scientific sources related to the topic shows that the theory of financial crises began to be extensively studied from the early 20th century. F. Mishkin (2019), in his work, identified information asymmetry in the financial system, credit crises, and the formation of asset price bubbles as the main causes of financial crises. K. Reinhart and K. Rogoff (2011), relying on historical data, emphasize that financial crises tend to recur almost every century and arise as a result of excessive confidence and credit expansion within the financial system.

F. Allen and D. Gale (2007) developed theoretical models of financial crises and introduced the concept of systemic risk into economic literature. According to them, the loss of confidence

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within the financial system leads to bank runs.

Researchers at the International Monetary Fund (IMF) — Claessens & Kose (2013) — classified financial crises into three main types: banking crises, currency crises, and debt crises. They emphasize that with the deepening of global financial integration, economic interdependence among countries increases, and crises spread rapidly through the "contagion effect."

In Uzbekistan's practice, issues of financial stability hold a significant place in presidential decrees and Central Bank policies. The Presidential Decree No. PQ-5177 (2017) introduced the liberalization of the foreign exchange market, while the Decree No. PF–5992 (2020) laid the foundation for the Capital Market Development Concept and the creation of digital financial service infrastructure.

In recent years, alongside the rapid development of Uzbekistan's financial market, the need for mechanisms to manage systemic risks has been growing. The stress-testing practice introduced by the Central Bank provides an opportunity to assess the resilience of the banking system. At the same time, commercial banks are aligning their capital adequacy with Basel III requirements. The liberalization of currency policy helped establish a real market exchange rate for the national currency — the so'm, although in the initial years it led to an increase in import-driven inflation. Therefore, maintaining a balanced monetary policy and controlling the money supply remain crucial factors.

In the development of the stock market, issues such as low transparency and weak corporate governance culture persist. To address these, it is necessary to fully implement International Financial Reporting Standards (IFRS) and strengthen investor confidence.

Additionally, the introduction of FinTech technologies plays an important role in digitalizing banking services, improving the efficiency of payment systems, and reducing transaction costs. The growing focus on ESG investments and green finance represents a key component of the sustainable development strategy.

Uzbekistan's experience demonstrates that enhancing financial literacy, improving the investment climate, and harmonizing legislation with international standards are decisive factors in mitigating the impacts of financial crises.

A financial crisis is a sudden disruption of the financial system, manifested through a sharp decline in asset values, bankruptcies, and massive capital outflows. In particular, banking crises occur when liquidity disappears, credit portfolios grow to risky levels, and speculative operations increase; currency crises arise when the national currency sharply depreciates under the influence of external and internal factors; debt crises result from excessive growth of public and private sector debt; stock market crises appear as market collapses (for example, in 1929, 1997–1998, and 2008–2009); and geopolitical crises emerge when wars, sanctions, or political instability disrupt financial markets.

Financial crises can lead to a range of negative economic and social consequences, such as a decline in gross domestic product (GDP), rising unemployment, falling household incomes, reduced investment activity, currency depreciation, increased inflation, social instability, and heightened political risks.

While it is impossible to completely eliminate financial crises, their impact can be mitigated through the following key measures:

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- In the banking system – strengthening capital adequacy standards (Basel III), conducting regular stress tests, and introducing mandatory deposit insurance systems.
- In the stock market – ensuring transparency in corporate financial reporting, strengthening legislation against insider trading, and limiting speculative operations.
- In the currency market – maintaining stability through foreign exchange interventions, controlling capital outflows, and developing hedging instruments to manage currency risks.
- In macroeconomic policy – creating reserve and stabilization funds, controlling public debt, and regulating interest rates within monetary policy.
- In international cooperation – enhancing collaboration with the IMF and the World Bank, participating in early warning systems for risk detection, and improving financial data exchange between countries.
- Through innovative tools – actively utilizing FinTech technologies, promoting ESG investments, and expanding the use of Islamic finance and venture capital instruments.
- Through financial literacy – strengthening educational programs for the public and entrepreneurs to improve understanding of financial management and risk awareness.

These measures collectively aim to enhance financial system resilience, reduce vulnerability to global shocks, and support sustainable economic stability.

Conclusion

In conclusion, it can be stated that introducing Islamic financial instruments in the financial market will help ensure diversification; promoting ESG investments and green finance will support sustainable development; and the extensive use of FinTech technologies will improve risk management. Developing a national financial literacy strategy, expanding the financial market infrastructure through public–private partnerships, diversifying financial market instruments, and improving legislation based on international experience will collectively strengthen economic security and help mitigate the consequences of financial crises.

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