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THE BANKING SYSTEM OF UZBEKISTAN: CURRENT STATE AND DEVELOPMENT PROSPECTS

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Abstract: The article discusses modern reforms aimed at the development of the banking sector in Uzbekistan. The key indicators of this sector are evaluated in dynamics, and problem loans from both commercial banks with state participation and private ownership are analyzed. The analysis revealed that frequent changes in tax legislation and currency policy represent a significant obstacle to the further development of the banking system of Uzbekistan. This can lead to fluctuations in the profitability of financial instruments at the initial stages and in the future contribute to the intensification of crisis processes in the economy. The results of the study can be useful for making strategic decisions on the development of countries with economies in transition.

Keywords: transformation, banking sector, digital economy, commercial banks, banking sector, loan portfolio, development priorities, problem loans, refinancing rate.



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Introduction

The last decade has become a kind of “era of change” for Uzbekistan. The country is implementing full-scale reforms aimed at the formation of a market-based multi-layered economy. An important role here is played by the creation of a strong and steadily developing banking sector in the context of the digital economy. At the present stage of development of the national economy, the banking system of Uzbekistan, which includes thirty-five commercial banks by the middle of 2023, is working quite stably, providing a variety of banking services, including innovative ones. According to official data, there are almost 50 branches of commercial banks for every one hundred thousand able-bodied population in the republic, and the number of bank accounts of individuals with 1.2 times the number of adults [1].

The banking system is the circulatory system of an economic organism and the state of the economy directly depends on its condition, and as a result, the power or weakness of the state.

The new law "On the Central Bank" ensured the almost complete independence of the Central Bank from state and other institutions and made its rights of control over the activities of commercial banks absolute. The essence of the law is that the Central Bank does not act as a partner and organizer of the banking services market, but as a supervisor of banks, having a set of punishing tools.

Articles 11 and 12 of the law "On the Central Bank" give such a wide range of powers to the Central Bank that commercial banks are practically "forbidden to breathe without the permission of the regulator." And if we compare these articles with article 4 of the law "On Banks and Banking Activities", which describes the functions of commercial banks, it becomes quite obvious to what a flawed and disenfranchised state commercial banks have been brought.

The main problem of the development of the banking sector in Uzbekistan is the presence of a high share of state participation - twelve out of thirty-three banks are centralized, the state capital is more than 87% of the total capital, and assets are more than 85% of the total assets of the banking system [1]. Since 2017, the Government of the country has been taking strategic measures aimed at liberalizing the national economy, including the banking sector, improving the competitiveness of banks, increasing the share of innovative banking services.

The institutional foundations of the activities of commercial banks of Uzbekistan are represented by a number of regulatory legal acts, among which the Basic Law of the Republic of Uzbekistan is of fundamental importance, in addition, the Law "On Guarantees of protection of citizens' deposits in banks" [2], the Law of the Republic of Uzbekistan "On Amendments and additions to the Law of the Republic of Uzbekistan "On Banks and Banking activities"" [3], Strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025" [4]. Currently, the process of transition to the international standards "Basel III" is in full swing in the republic, which is designed to increase the liquidity and competitiveness of the banking sector.

Methods

The article uses methods of retrospective analysis, logical analysis, comparative analysis, vertical and horizontal analysis, coefficient analysis, etc.

Result and Discussion

In 2023, the net profit of the banking system will grow by 24% compared to 2022 a year and will amount to 12.4 trillion soums. At the same time, the amount of gross income received and Expenses amounted to 128.7 trillion. soums, costs - 116.4 trillion. soums. 67% of the total revenue of banks is interest income, 33% is interest-free income. Percentages 88.3% of income is made up of loans and obligations to customers, 6.2% - funds deposited with other banks, 5.5% - securities represent income received on securities. []

As a result of the measures taken to develop the banking sector in Uzbekistan, significant positive changes have taken place in this area, in particular, the total amount of their assets of commercial banks in 2022 increased by a quarter compared to the corresponding period of 2021, and if compared with 2017, the volume of loans granted for the five-year period has grown 4.5 times, and micro-loans - more than five times. The growth of stability of the banking sector is confirmed by the international rating agencies Moody's, Standard & Poor's and Fitch, which over the past six years have positively assessed the activities of commercial banks in the republic [5].

In the 1st quarter of 2023, compared to the same period of 2022, the role of the banking sector in the economy of the Republic of Uzbekistan has grown enormously, as evidenced by a significant increase in assets, credit investments, deposits, etc. (Table 1).

Table 1
Dynamics of the most important indicators of the banking sector of Uzbekistan in 2022-2023, billion sum [1]

Indicator	01.06.2022			01.06.2023			Nominal growth, % Real growth (excluding devaluation), %	Nominal growth, % Real growth (excluding devaluation), %
	total of them	in foreign currency	share in% of total	total of them	in foreign currency	share in% of total		
Amount of assets	493 734		49%	572 343	254 919	45%	16%	14%
Credit investments	345 201	167 288	48%	420 469	191 918	46%	22%	20%
Attracted deposits	173 894	68 265	39%	204 790	66 705	33%	18%	16%
Total capital	73 547	352	0,5%	84 766	365	0,4%	15%	15%

Based on the data presented in Table 1, it can be concluded that in Uzbekistan in 2022, the ratio of credit investments has almost doubled, a similar increase was observed in the ratio of the loan portfolio to the gross domestic product of the country. There is a significant increase in the total capital of commercial banks - more than 2.5 times, and the ratio of the total capital of banks to the GDP of Uzbekistan has increased almost 2 times. All this confirms the positive trends in the development of the banking sector of the Republic of Uzbekistan, which have been observed in recent years.

For a more detailed analysis of the banking sector of the Republic of Uzbekistan, it is advisable to refer to the indicators of the functioning of the banking system in dynamics, which show that in 2017-2022 it underwent significant changes: the number of banks at the end of 2022 was 22, the total capital increased significantly - in 2022, compared with 2017, there is a fourfold increase in the above indicator. The authorized capital has also increased almost 4 times (Table 2).

Table 2
Performance indicators of commercial banks of the Republic of Uzbekistan in 2017-2022, trillion. sum (at the end of the year) [1]

Indicators	2017		2018		2019		2020		2021		2022	
	Number of banks	Amount										
Total capital	28	20,0	28	26,0	30	41,8	32	58,0	33	67,0	31	78,4
including authorized capital	28	15,2	28	20,0	30	32,5	32	44,6	33	48,5	31	58,7

The total loan portfolio of commercial banks as of June 1, 2023 exceeded 420 trillion. sum, while the share of problem loans is about 4%. More than 83% of the loan portfolio is concentrated in the hands of the state, which is more than 340 trillion. sum, of which about 13 trillion sum is characterized as problematic. Among the banks with a high state share, the largest share (almost 10%) of problem loans in the People's Bank (Table 3).

Table 3
Problem loans of commercial banks of the Republic of Uzbekistan with state funds as of
June 1, 2023, billion sum [1]

№	Name of the bank	Loan portfolio	Of which problem loans	Share, %
Total		420 469	14 639	3,5
Banks with a state share		340 335	13 212	3,9
1.	The National Bank	88 684	2 698	3,0
2.	Uzpromstroybank	52 926	1 519	2,9
3.	Agrobank	51 398	1 976	3,8
4.	Asaka Bank	36 679	1 634	4,5
5.	Mortgage Bank	32 997	996	3,0
6.	People's Bank	22 438	2 230	9,9
7.	Kishlok kurilish Bank	20 912	937	4,5
8.	Microkreditbank	14 013	741	5,3
9.	Alokabank	10 343	184	1,8
10.	Turon Bank	9 857	296	3,0
11.	Poytakht Bank	86	0,8	0,9

In private commercial banks, problem loans were recorded in the amount of 1.4 trillion. sum, which is 1.8%. The largest share of problem loans in Uzagroexportbank (90.6%) and Ravnak Bank (76.9%) (Table 4).

Table 4
Problem loans of private commercial banks of the Republic of Uzbekistan as of December 1,
2022, billion sum [1]

№	Name of the bank	Loan portfolio	Of which problem loans	Share, %
Other banks		80 135	1 427	1,8
1.	Capital Bank	21 299	159	0,7
2.	Hamkorbank	13 112	77	0,6
3.	Ipak yuli Bank	9 091	237	2,6
4.	Orient Finance Bank	6 437	19	0,3
5.	Invest Finance Bank	5 856	77	1,3
6.	Trust Bank	4 170	160	3,8
7.	Davr Bank	3 782	42	1,1
8.	Tenge Bank	3 024	48	1,6
9.	Asia Alliance Bank	2 672	91	3,4
10.	Anchor Bank	2 483	57	2,3
11.	Tibisi Bank	2 205	45	2,0
12.	UzKDB Bank	2 045	0,0	0,0
13.	Garant Bank	1 274	105	8,3
14.	Ziraat Bank	1 139	56	4,9
15.	Universal Bank	1 048	8	0,8
16.	Ravnak Bank	279	214	76,9
17.	Madad Investment Bank	182	29	16,0
18.	Saderat Bank Iran	28	1,6	5,7
19.	Apex Bank	7	0,0	0,0
20.	Smartbank	0,5	0,0	0,0
21.	Uzagroexportbank	0,5	0,4	90,4
22.	Uzum Bank	0,0	0,0	0,0

23.	Hiya Bank	0,0	0,0	0,0
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The banking system of Uzbekistan currently maintains financial stability, despite the shocks associated with the deterioration of the external geopolitical situation, high global inflation, an increase in the level of domestic debt burden and the volume of problem loans. In the first half of 2022, the financial stability indicators of the banking sector were higher than the minimum regulatory requirements [1].

Over the past 3-4 years, the ratio of total loans to GDP in Uzbekistan has increased significantly. However, due to the pandemic, the share of problem loans in the total volume of loans issued in 2020-2021 reached a peak of 5-6%. At the same time, due to improved economic activity and increased solvency of businesses and households, this indicator decreased to 4.7% as of October 1, 2022. Problem loans in the context of industries have increased significantly in industry and agriculture. In 2018-2021, mortgage loans with a payment-to-income ratio (PTI) above 51% accounted for 60-70% of all mortgage loans [1].

The analysis shows that in the short and medium term, the level of capital adequacy of Uzbekistan's banks will remain above the regulatory minimum. But according to the pessimistic scenario, it may fall below the norm.

The level of financial stability of the banks of the Republic of Uzbekistan achieved to date has made it possible to establish contacts and attract loans from world financial institutions - the Asian Development Bank, the International Bank for Reconstruction and Development, the International Development Association, the Islamic Corporation for Private Sector Development, the German and Dutch Development Bank, as well as Korean and Chinese export-import banks, etc. [6].

Analysis. Frequent changes in tax legislation and currency policy are a significant obstacle to the further development of the banking system of Uzbekistan, which at the initial stages may lead to fluctuations in the profitability of financial instruments, and in the future may contribute to a significant intensification of crisis processes in the economy. In accordance with the above, it is important to stabilize the tax and currency systems, as well as to carry out measures for the specialization and universalization of banks, which will significantly diversify banking services. The program for the implementation of the above measures has been developed and is being actively implemented by the Association of Banks of Uzbekistan [7].

Allocated in mid-2022 The World Bank plans to allocate a concessional loan of \$15 million for the reform of the banking sector (Fig. 1).



Fig. 1 Components of the financial sector reform project of Uzbekistan for 2023-2028 [5]

The main goal of the project developed for the next five years is the reduction of the state share in the banking sector of Uzbekistan, the diversification of risks associated with this, the formation of a market for natural disaster risk insurance, as well as the improvement of instruments for financing foreign trade operations.

In August 2021, in order to further reform the banking system, the norms of mandatory reserves were adopted (Table 5).

Table 5
Norms of mandatory reserves in the banking system
Republic of Uzbekistan [1]

Type of commitment	Mandatory reservation rules
Deposits of legal entities in national currency*	4%
Deposits of legal entities in foreign currency	18%
Deposits of individuals in national currency*	4%
Deposits of individuals in foreign currency	18%
* The average coefficient is applied to these types of obligations (0,8)	

The main rate in Uzbekistan is 2-3 times higher than the key interest rates of the Central banks of the leading world powers (Fig. 2).

At its meeting on July 25, the Board of the Central Bank decided to reduce the key rate by 0.5 percentage points and set it at 13.5% per annum.[10]

The decrease in core inflation and the dynamics of inflation expectations indicate that the secondary impact of the increase in energy tariffs on inflation is lower than expected, which increases confidence that inflation at the end of the year will form in the lower limits of the forecast corridor.

Relatively tight monetary conditions contribute to reducing the positive production gap and reducing inflationary pressure from the demand side.

Taking into account the expected dynamics of inflation and the reduction of inflation risks, the Central Bank's management decided to reduce the key rate by 0.5 percentage points and set it at 13.5% per annum.

The last time the rate was changed was in March 2023, when it fell from 15 to 14 percent. The Mb rate was below 14 percent from January 1, 2015 to June 24, 2017, when it was 9 percent.

The rating conducted by the American financial and economic magazine Forbes revealed the ten most reliable banks in Uzbekistan and their owners. The largest share of the assets of the most reliable banks in the republic belongs to the Ministry of Finance, the Fund for Reconstruction and Development and the Agency for State Asset Management (Table 6).

Table 6
The most reliable banks in Uzbekistan (as of 01.01.2023) [8]

№	Name of the bank	Ratings	Assets, billion soums	Owners
1.	National Bank of Foreign Economic Activity	Fitch - BB-, S&P - BB-, Moody's - B1	93 114	Ministry of Economy and Finance - 40.7%, Reconstruction and Development Fund - 59.3%
2.	Mortgage Bank	Fitch - BB-, S&P - BB-, Moody's - B1	37 532	Ministry of Economy and Finance - 96.9%
3.	Industrial and Construction Bank	Fitch - BB-, S&P - BB-	55 895	Reconstruction and Development Fund - 82.09%, Ministry of Economy and Finance - 3.06%
4.	People's Bank	Fitch - BB-, S&P - BB-	26 692	Ministry of Economy and Finance - 22.4%, Reconstruction and Development Fund - 77.6%
5.	Asaka Agrobank	Fitch - BB-, Moody's - B1	51 940	Reconstruction and Development Fund - 71.23%, State Asset Management Agency - 20.25%
6.	Agrobank	Fitch - BB-, Moody's - B1	40 832	Ministry of Economy and Finance - 40%, Reconstruction and Development Fund - 19%
7.	Kishlok kurilish Bank	Fitch - BB-	21 251	Ministry of Economy and Finance - 74%, Reconstruction and Development Fund - 24%
8.	Microkreditbank	Fitch - BB-	13 597	Ministry of Economy and Finance - 70.82%, Reconstruction and Development Fund - 28.15%
9.	Hamkorbank	Moody's - B2, S&P - B+	13 200	Ikram Ibragimov - 49.8%, Dutch Development Bank FMO, International Finance Corporation (World Bank Group) - 22%
10.	Kapitalbank	Moody's - B3, S&P - B-	16 183	81.6% of it belongs to seven legal entities, 18.4% - to 17 individual shareholders

Conclusion

In April 2020, Moody's rating agency assessed the forecast of the banking system of the Republic of Uzbekistan as stable and noted its high resistance to the effects of the coronavirus pandemic compared to other CIS countries. In January 2023, Moody's rating agency announced an upgrade of the sovereign credit rating of the Republic of Uzbekistan from "B1" to "Ba3", and also

changed the outlook from positive to stable. According to the agency, the rating upgrade reflects "the commitment demonstrated in recent years to a comprehensive reform program," which has persisted through two significant successive crises. In particular, additional progress is expected in the reforms currently being implemented (agenda 2022-2026), including the IPO of large state-owned enterprises and the privatization of banks, which will further improve efficiency and competitiveness.

Thus, the activity of banks, acting as one of the important nodes of the domestic economy, contributes to maintaining its stability. Improving the financial stability and reliability of the banking system should be under the constant control of the state, since it will increase the provision of the economy with the necessary financial resources, strengthen the business activity of economic entities, thereby increasing the competitiveness of the national economy.

The two-tier banking system of Uzbekistan has been functioning since the independence of the republic, including today the Central Bank and more than thirty commercial banks, most of whose assets are dominated by the state share. Following the requirements of the market economy and the promising experience of foreign countries, the Government of the country is taking measures to liberalize the banking sector, as well as to diversify and introduce innovative banking services. Liberalization in the field of commercial banks requires a reduction in state participation, which is associated with the presence of high regional differentiation in the republic and problems in territories remote from the center. In addition, it is important to further attract domestic and external investment resources to the banking sector of the republic, as well as the introduction of modern banking instruments necessary for the further development and international integration of the banking sector and the economy of Uzbekistan.

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