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## DYNAMICS OF THE FINANCIAL-BANKING SECTOR DEVELOPMENT OF UZBEKISTAN FOR THE YEARS 2017-2024

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**Abstract:** Analyzing the dynamics of the development of the financial-banking sector of Uzbekistan from 2017 to 2024, this article conducts an in-depth examination of key trends, factors, and changes shaping its contemporary landscape. Attention is devoted not only to macroeconomic reforms and government strategic initiatives but also to the penetration of digital technologies into the financial sphere, as well as the sector's response to global economic challenges such as the COVID-19 pandemic. Additionally, the article explores structural changes in the banking system, including the emergence of new market players, mergers and acquisitions, and regulatory adjustments. The main objective of the work is to provide readers with a profound understanding of how Uzbekistan's financial-banking sector has evolved in recent years and what prospects lie ahead, delineating key trends and development directions.

**Keywords:** Financial-Banking, Sector, Research, Factors, Macroeconomic Reforms, Strategic Initiatives, Digitization, COVID-19 Pandemic, Structural Changes, Regulation.



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### Introduction

The financial and banking sector is a key element of the economic infrastructure of each country, ensuring the functioning of financial flows and servicing various sectors of the economy. In the context of Uzbekistan, this sector plays a particularly important role in the process of economic development and stability. Since 2017, the financial and banking sector of Uzbekistan has undergone significant changes, which have influenced its structure, strategies and operational processes. In this regard, it becomes relevant to study the dynamics of development of this sector over a specified period of time in order to identify the main trends, factors and changes that shape its modern appearance.

The purpose of this study is to analyze the dynamics of development of the financial and banking sector of Uzbekistan for the period from 2017 to 2024. Based on the historical context and contemporary challenges, the study seeks to identify the key trends, factors and changes that impacted the sector during the specified time period. Through analysis of macroeconomic reforms, strategic initiatives, technological innovations and other factors, we strive to provide

readers with a deep understanding of the evolution of the financial and banking sector of Uzbekistan and its prospects for the future.

## Methods

To analyze the dynamics of development of the financial and banking sector of Uzbekistan for the period from 2017 to 2024, a mixed methodological approach was used. Materials and data for the study include official reports, statistics and publications of the Central Bank of Uzbekistan (cbu.uz), as well as other government bodies responsible for the financial sector. In addition, an analysis of the available academic literature related to the financial and banking sector of Uzbekistan was carried out.

For qualitative analysis, methods of content analysis and a systematic approach were used to identify the main trends, strategies and changes in the financial and banking sector for the specified period. The quantitative analysis was based on statistical (stat.uz) data on the dynamics of various indicators, such as lending volumes, banks' market share, changes in regulation, etc. Based on the collected materials and applied methods, we sought to provide a comprehensive overview of the dynamics of development of the financial and banking sector of Uzbekistan and identify the key factors and trends that shaped its development over this period. Results. From 2017 to 2021, commercial banks in Uzbekistan actively modernized their business processes, paying special attention to simplifying customer service through the development of remote channels, such as Internet banking and mobile applications. These changes occurred to varying degrees among different banks.

Positive changes in the banking sector began back in 2016. However, state-owned banks continued to be the main cause of problems in the national banking system of Uzbekistan, undermining the achievements of recent years in this area.



Table 1.-Main indicators of the financial system of Uzbekistan for 2017-2020.

Between 2018 and 2020, Uzbekistan saw a significant increase in the number of credit institutions to 55, including four new commercial banks: Poytakht Bank, Tenge Bank, TBC Bank

and Anor Bank. The number of microcredit organizations increased to 33, and the number of pawnshops reached 18.

As of the beginning of 2021, the assets of commercial banks amounted to 366.1 trillion soums, which is 120% more than in 2017. During the same period, liabilities increased by 111%, reaching 307.8 trillion soums, while capital increased by 182%, amounting to 58.4 trillion soums. The amount of loans provided to the economy during this period increased by 150% and reached 277 trillion soums. The average annual growth of deposits for the analyzed period was 18.5%, with total deposits growing to 114.7 trillion soums in 2020, an increase of 93% compared to 2017.

Liberalization of foreign exchange policy led to a decrease in the level of dollarization in the banking sector: from 64% in 2017 to 50.2% in 2020. The decline also affected foreign currency loans, which fell from 62.3% to 49.9%, and foreign currency deposits, which fell from 48.4% to 43.1%.

These changes indicate the rapid development and significant strengthening of Uzbekistan's financial sector, highlighting improved financial stability and the expansion of banking activities in the country. With the beginning of liberalization of foreign exchange policy in September 2017, the banking sector of Uzbekistan has undergone significant changes. This period was marked by increased participation of Uzbek banks in international financial markets. Particularly notable was the placement of US\$1 billion of sovereign Eurobonds by the government of Uzbekistan in February 2019, which allowed several of the country's commercial banks to raise long-term capital.

In November 2019, Uzpromstroybank became the first commercial bank to enter the international arena with the issuance of Eurobonds worth €300 million through the London Stock Exchange. It was followed by the National Bank for Foreign Economic Relations and Ipoteka Bank, each of which raised \$300 million in October and November 2020, respectively..

Foreign investor interest in the Uzbek banking sector has also increased due to a number of significant investments. For example, in 2018, the Swiss company ResponsAbility Investments acquired a 7.66% stake in Hamkorbank from IFC. In 2019, Kazakhstan's Halyk Bank founded its subsidiary, Tenge Bank, in Tashkent. That same year, Georgian TBC Bank acquired Payme and then opened its branch in Tashkent as the first digital bank in the country. In 2020, Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG) and Triodos Investment Management invested in the authorized capital of Ipak Yuli Bank, purchasing new shares worth \$25 million.

These steps not only contributed to the development of the financial structure of Uzbekistan, but also confirmed the strengthening of its position on the world economic arena.

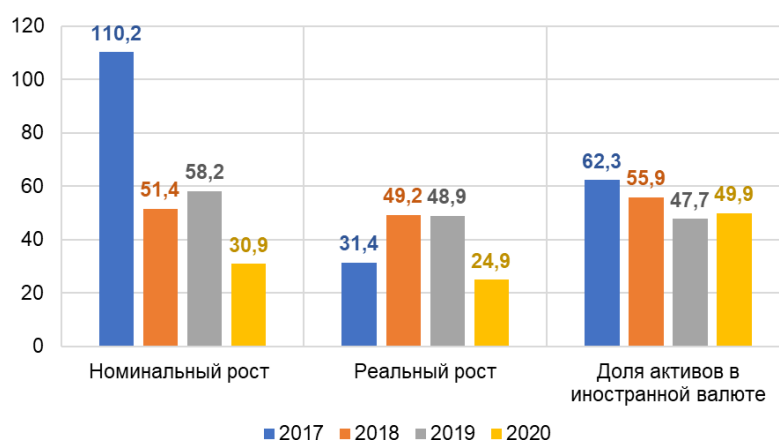


Diagram1. Bank loans

As noted on January 1, 2021, the volume of loans issued to the economy amounted to 277 trillion. soums, which means an increase of 30.9% compared to data for 2019 and 150% compared to 2017. At the same time, if we do not take into account the revision of loans in foreign currency, the actual increase in loans amounted to 24.9%. The share of loans in foreign currency in the total loan portfolio decreased from 62.3% in 2017 to

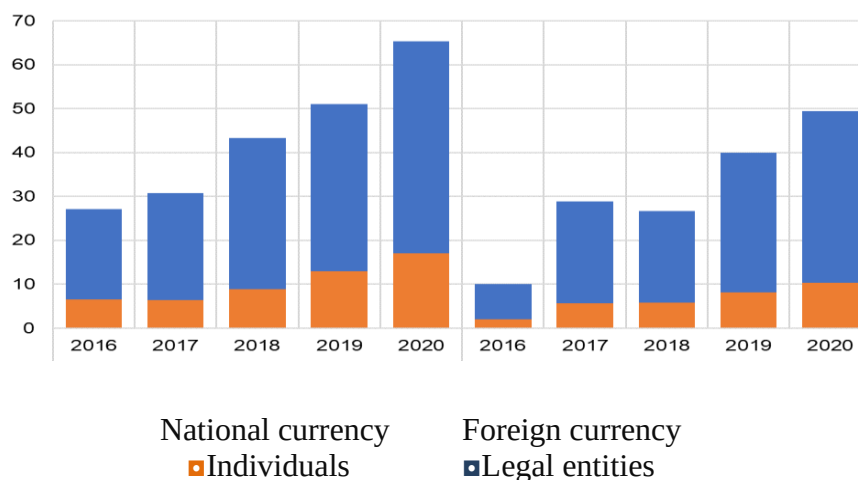


Diagram 2. Bank deposits

According to diagram 2, as of January 1, 2021, the total volume of deposits in the banking system amounted to 114.7 trillion. soums Of this amount, 27.4 trillion. soums (24%) belong to individuals, and 87.3 trillion. soums (76%) - to legal entities. Although the share of deposits from individuals is only 24% of the total volume of deposits in the banking system, there has been a significant acceleration in the growth rate of household deposits in recent years. For example, in 2018, the growth rate of national currency deposits was 38.2%, in 2019 - 45.2%, and in 2020 - 31.7%. At the same time, the volume of deposits in foreign currency increased by 2% in 2018, by 40.1% in 2019 and by 27.7% in 2020.

The corona virus pandemic that broke out in early 2020 highlighted the globalization of the 21st century, with no country left behind. Regulators around the world have faced significant challenges in ensuring the stability of financial systems and, as a result, have taken historic measures during the crisis. The Corona crisis emphasized the need for the active introduction of innovative technologies in the financial sector, the expansion of non-banking financial instruments, as well as increasing financial literacy among the population and developing transparent mechanisms for providing social support. The pandemic has also led to explosive growth in the online ordering and delivery industry. In this regard, there was a dynamic growth in remote non-cash payments, the development of electronic money and transfer systems, which stimulated the process of digitalization of commercial banks, the revision of customer service algorithms and the deepening of relationships with customers. In particular, as of January 1, 2021, the number of users of remote services amounted to 14.5 million (of which 13.7 million were individuals, 822 thousand were business entities), which is 30% more than for the same period in 2019.

The Central Bank took the following measures to maintain macroeconomic stability and ensure the stability of the financial system: Extension of loans until October 1, 2020 in the amount of 26.5 trillion soums for individuals and legal entities, without changing the quality of loans and without creating additional reserves. The introduction of short-term monetary policy instruments from March 2020, such as repo operations and currency swaps, providing banks with the necessary liquidity. Introduction of two new liquidity instruments in June 2020: a temporary special refinancing facility and revolving credit lines. Increasing the averaging ratio of required reserves, reducing the main rate of the Central Bank, and developing recommendations for providing revolving loans to business entities.

### Information on the main indicators of the banking sector in 2021-2024:

Financial indicators indicate healthy growth in assets and credit investments, which is a positive signal of financial health and expansion. The percentage of assets in relation to total financial indicators decreases from 50.2% in 2021 to 44% in 2024, indicating that, despite the increase in absolute values of assets, their share in total finance is decreasing. A decrease in the share of assets and credit investments may indicate diversification of the organization's financial structure or growth in other areas that are not described in the table. We can consider increasing the volume of attracted deposits from 115,088 in 2021 to 243,128 in 2024. However, the share of these deposits in total finance decreases significantly from 43.2% in 2021 to 29% in 2024, indicating a change in the structure of financial resources. A significant decrease in the share of attracted deposits relative to overall indicators may indicate changes in deposit strategies or increased dependence on other sources of funding.

In terms of total capital, there is: A gradual increase from 60,618 in 2021 to 100,713 in 2024; Consistently maintains a small share of less than 1% of overall financial performance, indicating its relatively small role in the financial structure, possibly due to its nature as non-operating or buffer capital.

The analysis shows dynamic financial growth with strategic changes in the composition of financial resources over the observed period.

### Conclusion

Analyzing the development of the banking system of Uzbekistan from 2017 to 2024, one can note significant changes and adaptations caused by both global challenges and internal economic reforms. The period from 2017 to 2021 was characterized by the active integration of new technologies and increased regulatory measures in response to a rapidly changing economic environment and the COVID-19 pandemic, which required banks to increase their flexibility and innovative approach to customer service.

There was continued growth in assets and credit investments from 2021 to 2024, signaling recovery and expansion from the pandemic downturn. The decline in the share of deposits attracted may reflect a change in the funding structure, perhaps due to an increase in alternative sources of capital or changes in depositor behavior.

Thus, the banking system of Uzbekistan demonstrates resilience and adaptability to economic challenges, while supporting stable development and integration into the global financial system. Despite the difficulties that have arisen, the banking sector continues to develop, relying on innovative approaches and an improved regulatory environment.

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