

## Reforms of the Banking Sector of the Republic of Uzbekistan

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**Annotation:** This article contains certain issues for consideration, and they are based on reforming the banking system, what it is, what measures have been taken to improve banking activities and how all this together has affected the banking sector of the Republic of Uzbekistan.

**Keywords:** banking sector, economy, banking system reform, commercial bank, investments, loans.

**Introduction.** The banking sector is the most important part of the financial system. Credit institutions carry out settlements, ensure the safety of customer funds in bank accounts and transform these funds into loans. The banking system is two-tier: it consists of the Central Bank and commercial banks. The purpose of the transformation of the sector is to carry out comprehensive changes in the banking system aimed at creating a modern banking system, increasing the investment attractiveness of banks and introducing new standards of banking services.

**The degree of knowledge.** Many academic economists have been studying the research of the state of the banking sector and predicting its further development, including: A. Turdaliev, Zh. Abdushukurov, I. Khudaiberganov, Kh. Khamidov and others.

**Research methodology.** This study was conducted using the methods of scientific abstraction, induction and synthesis, as well as the method of statistical data analysis.

**Main part.** It all started with the formation of reform strategies in 2017, which included the transformation of the banking sector, including the privatization of state property. Due to the liberalization of monetary policy in September of the same year and the free movement of the national currency, great changes occurred in this sector of the economy.

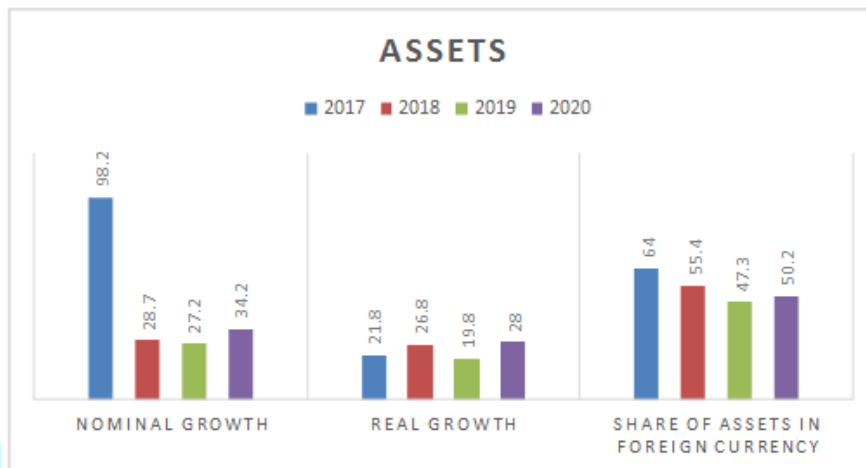
Over the next 4 years, 55 new credit organizations appeared, including four commercial banks, 33 microcredit organizations and 18 pawnshops. The assets of commercial banks have grown, and by 2020 they have already increased by 120%. The volume of lending also expanded. On January 1, 2021, the total volume of loans issued to the economy increased by 150%, and the real growth in loans was 38.6% per year. The volume of loans to individuals by 304%, the volume of loans to industry by 126%, and the volume of loans in the sectors of trade and services by 280%. Moreover, investment-focused reforms have helped increase the interest of foreign investors in the banking sector:

In 2018, a joint-stock company managed by ResponsAbility Investments (a Swiss company) bought out 7.66% of Hamkorbank shares from IFC.

In 2019, Halyk Bank of Kazakhstan established a subsidiary of Tenge Bank in Tashkent. TBC Bank, which acquired Payme in April 2019, opened its branch in Tashkent a year later as the first digital bank in Uzbekistan.

In 2020, the German Institute for Financial Development (Deutsche Investitions- und Entwicklungsgesellschaft mbH, DEG) and Triodos Investment Management invested in the authorized capital of Ipak Yuli Bank by purchasing new issued shares in the amount of \$25 million.

At the end of 2020, the volume of assets of commercial banks amounted to 366.1 trillion soums. The nominal growth of assets amounted to 34.2%, while the real growth was 28%. (see: pic. 1).

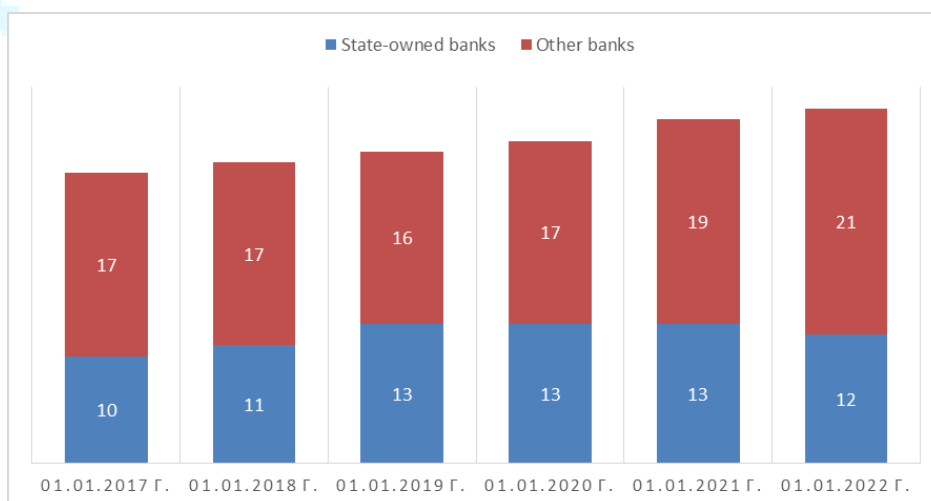


**Pic.1. Nominal, real growth of assets and the share of assets in foreign currency<sup>1</sup>**

Changes in the structure of banks that occurred during 2021:

- in July, it was announced the transfer of shares of JSCB "ASIA ALLIANCE BANK", which are managed by the State Assets Management Agency of the Republic of Uzbekistan, to Gor Investment Ltd (Great Britain);
- in November, JSC "BANK APELSIN" received a license for the right to carry out banking activities and became a new digital bank.

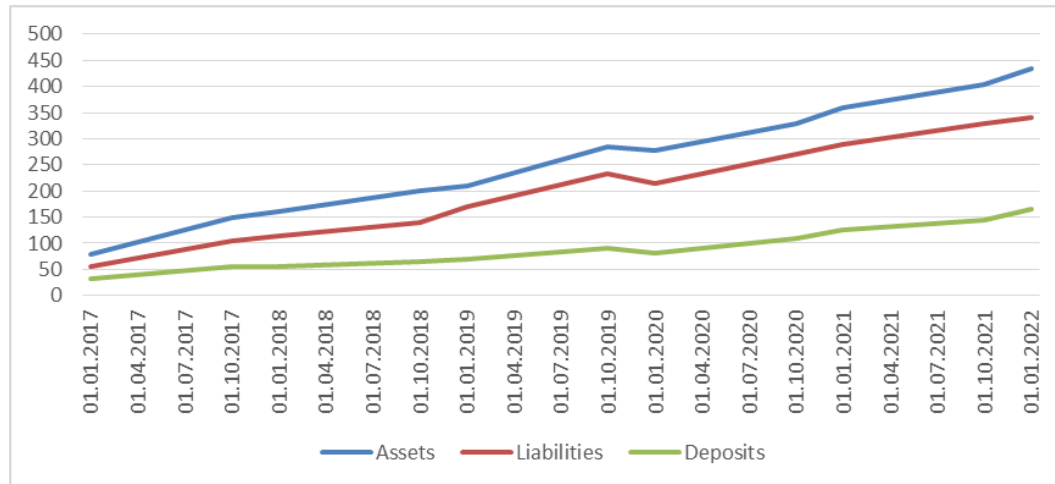
Dynamics of the number of banks operating in the Republic of Uzbekistan for 2017-2021 (see: pic. 2).



**Fig.2. Dynamics of the number of banks operating in the Republic of Uzbekistan for 2017-2021<sup>2</sup>**

<sup>1</sup><https://www.cer.uz/en/post/civil/obzor-dinamiki-razvitia-finansovo-bankovskogo-sektora-uzbekistana-za-2017-2020-gody>

Dynamics of assets, loans and deposits of commercial banks in the Republic of Uzbekistan for 2017-2021. (see: pic.3)



**Fig.3. Dynamics of assets, loans and deposits of commercial banks in the Republic of Uzbekistan for 2017-2021 (trillion sums)**

Over 4 years, the volume of bank loans increased from 26% of GDP to 48%. Economists are optimistic about the future of the banking environment and business. But this is not the end of the banking sector transformation process. Indeed, on May 12, 2020, the President of the Republic of Uzbekistan adopted a decree “On the strategy for reforming the banking system of the Republic of Uzbekistan for 2020-2025”.

The strategy was developed by the Central Bank and the Ministry of Finance in cooperation with the World Bank.

Particular attention is paid to:

- inefficient use of financial and human resources, inadequate state of corporate governance and risk management systems as a result of the state's dominance in the banking system;
- implementation by state-owned banks of the function of traditional "development banks", which provide loans to priority programs, sectors and state-owned enterprises at below market rates;
- high growth rate of lending, as a result of which a negative impact is exerted on liquidity and capital adequacy ratios, which reflect the degree of stability of banks;
- distortion of price signals in the financial market, as well as difficulty in the functioning of the transmission mechanisms of monetary policy as a result of maintaining a high share of lending at preferential rates;
- the vulnerability of banks to foreign exchange and credit risks, as well as liquidity risk as a result of high dollarization, as well as the concentration of loans and deposits in large enterprises and certain sectors of the economy;
- the low level of financial inclusion, which is the result of the corporate-oriented business model of banks with state participation, the weak role of non-banking financial institutions, as well as the weak development of innovations and information systems, created the need for fundamental reforms in the system.

<sup>2</sup> <https://ifmr.uz/publications/articles-and-abstracts/bank>

**Conclusions and offers.** Summing up, we can say that reforms in the banking system, and not only, are very important, as they modernize working methods, increase efficiency and lead to the development of not only the bank, but the entire economy of the country as a whole.

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