

THE IMPORTANCE OF BANK PRIVATIZATION AND ITS IMPACT ON BANK  
PROFITABILITY

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**Annotation:** This article analyzes the role and significance of the privatization of state-owned banks in the development of the economy. Using the example of bank privatization, it highlights the opportunities to strengthen competition in the financial system, improve management efficiency, attract foreign investment, and develop financial markets. It is also noted that a high share of state-owned banks has a negative impact on the development of the sector.

**Key words :** bank privatization , financial system, foreign investment, financial markets, economy

The privatization of state-owned banks plays a critical role in the development of a national economy and represents a transformative process with broad implications for the financial system. Privatization refers to the transfer of ownership and control of banks from the state to private individuals or companies. This process is typically undertaken to stimulate competition, improve managerial efficiency, attract foreign and domestic investment, introduce modern financial technologies, and enhance the overall development of financial markets. Maintaining a high share of state ownership in the banking sector is widely recognized to hinder efficiency, innovation, and competitiveness, thereby slowing economic development.

In many economies, including ours, the government has approved comprehensive banking reform strategies that incorporate privatization as a key component. According to data from the Central Bank, although the number of private banks already surpasses that of state-owned banks, the market share of banking services provided by institutions with government participation still accounts for approximately 60 percent when excluding the state's portion. To address this imbalance, the privatization process is designed to be implemented gradually. In the first stage, state-owned banks undergo institutional transformation and restructuring to improve governance and operational sustainability. In the second stage, state shares are sold to reputable foreign strategic investors to ensure the inflow of capital, knowledge, and international best practices.

Privatization, when properly implemented, yields several significant benefits. With the support of international financial institutions, the transformation and subsequent sale of state-owned banks lead to the improvement of corporate governance and risk management systems. It also encourages the adoption of new technological solutions, the integration of advanced foreign banking practices, changes in business models, and a stronger focus on customer orientation. Furthermore, the rise in the number of private banks increases competition within the sector. Over time, this heightened competition promotes improved service quality, reduced costs for consumers, the introduction of innovative financial products and services, and the expansion of remote and digital banking opportunities. As a result, both the population and entrepreneurs benefit from enhanced convenience and accessibility of financial services.

The privatization of financial institutions also establishes a solid foundation for increasing the strategic share of private ownership in the banking sector, implementing modern management standards and methodologies, ensuring competitiveness, and strengthening overall financial stability. However, this process is shaped not only by economic considerations but also by political factors. Political stability plays a decisive role in determining the success of privatization initiatives. In a stable political environment, the state is more likely to attract private and foreign investors, whereas instability may justify continued government control over the financial sector due to perceived risks. Additionally, international relations often influence privatization policies. Foreign investments, obligations to international financial institutions, or pressure from international organizations to implement market-oriented reforms can affect political decision-making in the banking sector. Thus, political interests, priorities, and alignments of different stakeholders frequently shape the trajectory of privatization.

The process of bank privatization typically consists of several interconnected stages, each characterized by specific activities and objectives. The preparation stage involves extensive research and analysis of the existing state of the banking system in order to identify problems, assess institutional performance, and determine opportunities for improvement. Based on these findings, a detailed privatization strategy is developed, outlining the goals, objectives, methods, and instruments to be used during the reform process. Following this, the decision-making and legislative stage focuses on creating an appropriate legal and regulatory framework. Relevant laws and normative acts are drafted and adopted to provide the legal basis for privatization. At this stage, specific banks are selected for privatization, and the conditions, criteria, and timelines for the process are clearly defined. Finally, after the sale or transfer of ownership, post-privatization measures are implemented to ensure the continued stability of the banking system and the broader financial market. These measures may include regulatory oversight, risk monitoring, institutional restructuring, and capacity-building initiatives to support long-term sustainability.

The specific features of the process may vary depending on certain conditions and objectives, as well as the political, economic, and legal situation in the country.

Privatization of banks is an important tool in shaping and developing the financial systems of different countries. This study examines various aspects of these processes, including their history, political factors, strategies, and approaches. History shows that countries have applied different strategies depending on their goals, political views, and economic conditions. Political factors play a crucial role in decisions regarding the nationalization or privatization of banks, determining the priorities and direction of reforms. Comparing different strategies and approaches reveals their advantages, disadvantages, and effectiveness in different contexts. Full or partial privatization, reforms, and restructuring – each of these approaches has its own characteristics and may be effective under specific conditions.

Bank privatization should be part of a broader strategy for developing a financial system that ensures economic growth, stability, and prosperity of society. The ongoing work to assess and expand the scope of modern services in commercial banks, the experience of developed countries' commercial banks, research conducted in the field of developing innovative banking services, and the impact of banking services offered by our country's commercial banks on increasing net profit are of great importance.

It has been determined that digitalized banking services and products serve as an important factor in increasing banks' net profit.

If digital banking products and services are introduced more widely into practice, it will become possible to organize a work structure in all commercial banks that can fully and

effectively meet modern requirements, providing consumers of banking services with transparent, fast, high-quality, and real-time services. This, in turn, will stimulate an increase in the competitiveness and profitability indicators of commercial banks, expand their customer base, and enhance the banks' reputation.

The growing demand and need of banking service consumers for high-quality and technologically advanced services, in turn, place before commercial banks the objectives of introducing more new banking services, further developing the existing ones, and implementing innovative ideas into the banking system.

Clear identification of priorities, goals, and tasks, as well as assignments planned for 2020–2025 on fundamental reforms and transformations in the banking system, are of great importance. The development of innovative activities plays a crucial role in boosting the economy of every country. Uzbekistan, too, has taken concrete steps in this direction, giving special attention to the advancement of innovative processes in the banking sector.

Since the introduction of new remote banking services depends on certain internal and external factors—particularly macroeconomic, regulatory, financial, human resources, and technological risks—it is necessary to assess in advance the potential risks that may arise before offering such services and to accurately forecast ways and timelines for mitigating these risks.

In conclusion, it can be emphasized that the choice of an appropriate strategy depends on particular circumstances, reform objectives, and the characteristics of the national context. It is essential to take into account political, economic, and social factors, as well as to ensure transparency, fairness, and the participation of all stakeholders in the decision-making process.

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