

STAGES OF DEVELOPMENT OF THE BANKING SYSTEM IN UZBEKISTAN

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Annotation: This article analyzes the stages of formation and development of the banking system in Uzbekistan. It discusses the characteristics of the centralized banking system during the former Soviet Union period, the establishment of the national banking system after gaining independence, and the introduction of a two-tier banking system. In addition, the processes of stabilizing and modernizing the system, the reforms implemented in recent years, and the introduction of digital technologies into the banking sector are highlighted.

Keywords: Banking system, Central Bank, commercial banks, monetary policy, financial system, digital banking services, economic development, national banking system.

According to the laws of the Republic of Uzbekistan, a bank is a commercial institution that performs operations to attract temporarily available funds of individuals and legal entities and place them on its own behalf on the basis of payment, maturity, and repayment conditions, as well as carrying out other banking operations. Banks are an integral attribute of the commodity–money economy. Historically, they have developed alongside each other. Therefore, the beginning of money circulation in the form of value can be considered the beginning of banking activities, and the level of development of banking has always corresponded to the level of development of commodity–money relations in the economy. Banks are credit institutions that form part of the organizational structure of the financial market and perform functions such as accumulating the temporarily free funds of individuals and legal entities, allocating the accumulated funds on their own behalf on the basis of repayment and maturity, and carrying out payments on behalf of clients.

After Uzbekistan gained independence, large-scale reforms were implemented in the country to establish a modern banking system and adapt it to the requirements of a market economy. As a result, the national banking system gradually developed and today has become one of the important institutions of the economy. Therefore, studying the stages of development of the banking system in Uzbekistan from a scientific perspective is one of the urgent issues.

Banking System during the Soviet Period

The formation of the banking system in the territory of Uzbekistan dates back to the period of the Soviet Union. During this time, the banking system was centrally managed, and all banking operations were carried out under strict state control. The main banking institutions included the State Bank (Gosbank), the Construction Bank, and the Foreign Trade Bank.

The main feature of the Soviet banking system was that lending activities were carried out not according to market principles but on the basis of centralized planning. Banks did not function as independent financial institutions; rather, they operated as instruments for implementing the state's financial policy. In addition, banking services were mainly provided to state-owned enterprises, while the private sector was almost non-existent.

Stages of the Formation of the Banking System after Independence (1991–2000)

In 1991, several banks began to emerge. They operated under the changing conditions of Uzbekistan's economic development and gradually adopted modern methods of operation, gaining new features over time. The years 1991–1992 marked a real turning point in views on banking activities. The adoption of the Law of the Republic of Uzbekistan “On Banks and Banking Activity” served as the basis for the formation of a two-tier banking system and assigned new responsibilities to the country's Central Bank.

The Central Bank was entrusted with tasks such as regulating money circulation, forming the commercial banking system, and establishing a payment system. Financing various sectors of the economy was now to be carried out by newly established specialized commercial banks operating on modern principles and requirements.

Reforms in the banking system continued during 1993–1994. On July 1, 1994, the introduction of the national currency—the soum—played a crucial role in the formation of an independent banking system and, in general, the economy of Uzbekistan. This meant that the Central Bank became fully independent in its activities and could effectively regulate the national monetary system using market instruments.

From this time onward, the Central Bank's activities in implementing monetary policy, regulating currency operations, managing banking activities, and creating an effective payment system were directed toward ensuring the stability of the national currency.

The year 1995 was notable for improvements in banking legislation. The historically important law “On the Central Bank of the Republic of Uzbekistan” not only strengthened the legal foundation of the banking system but also clearly defined the new and special status, authority, and main objectives of the Central Bank. At the same time, conditions were created to improve the quality of services provided to the population and to develop a competitive environment in credit and deposit markets.

After the rule limiting the amount of public savings attracted into banks' capital was abolished, the opportunities for banking institutions significantly expanded and competition increased. The results were immediate. At the beginning of 1994, 98.5% of household savings were concentrated in the Savings Bank (now the People's Bank), while only 1.5% belonged to other banks. By the end of that year, the share of other commercial banks increased to 12.8%. Today this figure has reached 83.2%.

In developing two main documents related to the banking system—“On the Central Bank of the Republic of Uzbekistan” and “On Banks and Banking Activity”—the experience of countries with developed financial systems was taken into account. These laws, along with the Law “On Joint-Stock Companies and Protection of Shareholders' Rights,” created favorable legal conditions for the establishment of non-state banks in private and joint-stock commercial forms.

Two key factors significantly influenced the development of the banking system during this period. First, as a result of reforms, in 1996 the Central Bank of the Republic of Uzbekistan became a fully authorized body responsible for monetary management and banking supervision. Second, the Law “On Banks and Banking Activity” clearly defined the legal framework for the

activities of second-tier banks—commercial banks. It established principles for forming universal commercial banks based on asset diversification and the attraction of foreign capital.

During this period, credit and financial institutions serving specific sectors of the economy were established. Such specialization was related to the need to finance certain sectors such as agriculture, automobile manufacturing, and aviation. Later, specialized banks expanded the scope of their operations and clients according to the new level of economic development and the requirements of the business environment.

At the same time, the Central Bank of the Republic of Uzbekistan continued to develop as the governing and supervisory authority of the banking sector. The legislative framework related to the banking system was significantly updated and aligned with international banking practices.

In 1998, measures were taken to ensure that the country's banks could operate in accordance with the recommendations of the Basel Committee on Banking Supervision. Based on these recommendations, a set of regulatory documents governing commercial banks' activities within the framework of international financial reporting standards was developed. These measures aimed to ensure the financial stability of commercial banks by identifying potential problems in their balance sheets in advance and taking preventive measures before liquidity decline or capital depletion could occur.

In 1999–2000, currency policy was further liberalized, and a mechanism for trading foreign currencies in the over-the-counter foreign exchange market was introduced. This mechanism allowed authorized banks to purchase foreign currencies from their clients at freely negotiated exchange rates based on supply and demand.

Development of the Banking System (2000–2010)

The years 2000–2010 were significant for achieving substantial progress in strengthening Uzbekistan's banking system. During this period, efforts were made to establish an efficient banking system with modern infrastructure. Strategic tasks defining the future development of the banking system were set.

The first task was to increase the financial stability of banks and expand the scope of financial services in the domestic market. The second task was to ensure the active participation of Uzbek banks in the international capital market.

During this period, the President of the Republic of Uzbekistan, **Islom Karimov**, paid special attention to the development and strengthening of the country's financial and banking system and to improving its quality. Accordingly, important decisions were made to increase the capitalization level of leading banks such as “Uzpromstroybank” and “Asaka Bank.”

The Presidential Decree “On Increasing the Charter Capital of Microcreditbank” significantly improved the bank's activities by turning it into one of the main credit centers for financing small businesses and private entrepreneurship. Each year of this period marked a new stage in the consistent development of the country's banking and financial system.

Stage of Banking System Modernization (From 2017 to the Present)

In recent years, large-scale measures have been implemented in Uzbekistan to fundamentally reform the banking system and bring it in line with international standards. Liberalization of the banking sector, strengthening competition among banks, and increasing the share of private banks are among the main directions of reform.

In addition, the process of introducing digital technologies into the banking system has accelerated. Online banking services, mobile banking, and remote lending systems are developing rapidly. These developments expand access to banking services and increase financial inclusion.

At the same time, reforms continue to strengthen the integration of the banking system into international financial markets, improve the quality of bank management, and enhance banking supervision.

In conclusion, the banking system in Uzbekistan has undergone a long historical path of development. Starting from the centralized banking system of the Soviet period, a modern two-tier banking system was formed during the years of independence. As a result of reforms implemented in recent years, the banking sector has become an important financial pillar of the national economy.

Today, further improvement of the banking system, wider introduction of digital technologies, improvement of banking service quality, and adaptation to international financial standards remain important factors for the country's economic development.

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