

DEVELOPMENT OF THE BANKING SYSTEM IN THE REPUBLIC OF UZBEKISTAN

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Abstract.

The banking sector is one of the important driving factors in the socio-economic development of the Republic of Uzbekistan. After independence, a modern banking system has developed, and over the past decade, our country has implemented large-scale economic reforms aimed at modernizing the financial infrastructure, liberalizing the market, and strengthening international financial cooperation. This article provides a comprehensive analysis of the development of the banking system in the Republic of Uzbekistan from independence to the present day. It examines the institutional formation of the banking sector, key stages of reform, and the transformation of financial intermediation mechanisms. Special attention is paid to the transition to a market economy, the introduction of a two-tier banking system, liberalization processes, and recent structural reforms aimed at increasing efficiency, transparency, and competitiveness. The study also identifies current challenges and outlines prospects for further development of the banking sector in the context of globalization and digital transformation.

Keywords: banking system, Central Bank, commercial banks, financial reforms, Uzbekistan, monetary policy, liberalization, privatization, financial inclusion, digital banking, Click, Payme, UzCard, HUMO systems, Anorbank, TBC Bank, retail banks, the Central Bank of the Republic of Uzbekistan, Ipoteka Bank, Asaka Bank, state-owned banks.

A bank is a financial institution that accepts funds from the population and organizations, ensures their safekeeping and protection, as well as provides loans and other financial services. Banks are the main participants in the financial market, and their activities have a significant impact on the country's economy. The banking system is a fundamental component of a country's financial infrastructure, ensuring the effective allocation of capital, stability of monetary circulation, and support for economic growth. In transition economies, such as the Republic of Uzbekistan, the development of the banking system is particularly significant, as it directly influences the pace and success of market reforms.

The banking sector is one of the important driving forces in the socio-economic development of the Republic of Uzbekistan. Over the past decade, our country has implemented large-scale economic reforms aimed at modernizing the financial infrastructure, liberalizing the market, and strengthening international financial cooperation. As part of these processes, fundamental changes have occurred in the banking system, including the gradual privatization of state-owned banks, the widespread introduction of digital technologies, the implementation of international financial reporting standards (IFRS), risk management systems, and modern corporate governance principles.

At the same time, digital transformation processes are rapidly developing in our country's banking system. In particular, the introduction of mobile banking, internet banking, digital banks (Anorbank, TBC Bank), real-time payment systems, fintech platforms, biometric identification,

and services based on artificial intelligence are increasing the speed, convenience, and efficiency of banking services. This, in turn, serves to expand financial inclusion, increase the share of non-cash payments, and ensure the popularity of banking services.

The banking system of Uzbekistan has entered a stage of rapid transformation under the influence of economic reforms, technological innovations, and international financial integration. This process is an important factor in the sustainable development of the banking sector, increasing its competitiveness, and the widespread introduction of modern financial services.

Theoretical approaches and methods

The banking system is a collection of several national banks (from ital. banco-bench, bench, table on which money changers spread out coins) and credit organizations that function inside the general monetary mechanism, which is a crucial component of the credit system [1].

A bank is a financial organization that controls both cash and non-cash transactions [2].

There are several types of banks, which can be classified according to their activities and functionality:

- 1) Retail banks are banks that directly serve individuals and small businesses;
- 2) Commercial banks are banks that provide financial services to corporate clients and carry out large credit operations.

Today, a two-tier banking system has been formed in Uzbekistan:

1. The first tier is the Central Bank of the Republic of Uzbekistan, the main organization that conducts monetary policy and regulates the banking sector.
2. The second tier is commercial banks, which carry out direct financial operations with individuals and legal entities [3].

The first banking institution in Uzbekistan was a branch of the Russian Empire State Bank, opened in Tashkent in 1875. At the end of the 19th century, branches, departments and agencies of the Central Asian Joint-Stock Bank (1881), Volgakama Bank (1893), RusChina (Rus-Asia) Bank (1903), Azov-Don Trade Bank (1910), Nizhny NovgorodSamara Bank (1899), Poltava Land Bank (1901) with Russian capital operated in Turkestan. After the October Revolution, all banks were nationalized by the Soviet authorities. The banking system in Uzbekistan was organized in 1924 as a component of the banking system of the former USSR. Until 1992, the Uzbek offices of the State Bank of the USSR (1923; in 1921-23, the State Bank of the RSFSR), the Construction Bank of the USSR (1959; in 1922-59, the Commercial Bank of the USSR), and the Foreign Trade Bank of the USSR (1924) supervised the work of banking institutions in the republic. Before the collapse of the USSR, in order to create an independent banking system in Uzbekistan, on February 15, 1991, at a session of the Supreme Council of the Republic, the Law of the Republic of Uzbekistan "On Banks and Banking Activities" was adopted, which determined the legal framework for banking activities in the republic, and from that moment on, a truly independent banking system of the republic began to form. The republican offices of the former Bank of the USSR were registered as independent banks by the Central Bank of the Republic of Uzbekistan. The strategy for the formation and development of the banking system

of the Republic of Uzbekistan corresponds to the program of gradual transition of the economy to market conditions [4].

The banking system in Uzbekistan began to take shape after the country gained independence. The national banking system was strengthened based on the Law "On Banks and Banking Activities" adopted in 1991. Initially, state-owned banks dominated, but in later stages, private and foreign-owned banks also began to operate.

During the past banking reforms, the two-tier structure of the national banking system (the Central Bank at the top level, commercial banks at the bottom level) was legally strengthened; the number of banks and the types of services they provide increased. In 1995-96, banking legislation was further improved. The Law of the Republic of Uzbekistan "On the Central Bank of the Republic of Uzbekistan" (December 21, 1995) not only supplemented the legal framework of the banking system, but also clearly defined the special status, goals, tasks and powers of the Central Bank of the Republic of Uzbekistan.

In response to the new realities in our republic and in the global banking community, Uzbek commercial banks expanded the range of services they offer, launched new banking products on the market, and at the same time began to actively introduce international standards for the activities of financial institutions.

Since 2017, Uzbekistan has implemented comprehensive programs to reform the financial sector. Bank capitalization has been increased, opportunities have been created for foreign investors, and digital technologies have been introduced [5]. Foreign banks were allowed to open branches in Uzbekistan. As a result, the competitiveness of the banking system and the quality of services have increased.

The Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020–2025, which outlines the goals, objectives, and priorities of the development of the banking system, as well as the directions of transformation and reform of the banking system in the period 2020–2025, was approved by Decree of the President of the Republic of Uzbekistan No. UP-5953 dated March 2, 2020, taking into consideration the World Bank's findings [6].

Improving the Republic of Uzbekistan's banking system's efficiency and financial stability, increasing the accessibility and calibre of financial services, and lowering the state's stake in the banking industry are the main goals of the reform. The Strategy calls for the implementation of specific measures in relation to these areas, which are crucial to economic development.

Additionally, four laws and two resolutions of the President of the Republic of Uzbekistan have been adopted in order to improve the standing of the country's banking system in international ratings.

Results and discussion

The banking system is a collection of banks and other financial institutions that are engaged in the storage and processing of funds, providing loans and other services to their customers. The banking system is a key element of the economic infrastructure, ensuring the smooth functioning of financial transactions.

A banking system is defined as a set of financial institutions that operate within a legal and regulatory framework to provide banking services. In modern economies, the two-tier banking system is the most widely adopted model, consisting of:

- a central bank responsible for monetary policy and regulation;
- commercial banks engaged in financial intermediation and service provision [7].

A banking system's effectiveness is influenced by a number of variables, including the degree of competition, financial stability, regulatory quality, and technological advancement. Additional difficulties in transition economies include reliance on government intervention, lack of market expertise, and institutional weakness.

In order for Uzbekistan's banks to become a potent system influencing the country's economy today, they had to go through a protracted evolutionary route of development and overcome significant challenges.

Currently, the banking system of the Republic of Uzbekistan provides a traditional range of banking services lending, deposit operations, etc. 31 commercial banks, 13 of which have state participation in the capital, their capital is more than 87% of the total capital, and assets more than 85% of the total assets of the banking system. [6]

The main systemic risks hindering the development of the banking system are:

- low ratings in the section "Obtaining loans" in the World Bank rating;
- provision of loans to priority programs, sectors. and enterprises with state participation at below -market rates;
- the presence of high dollarization of assets and liabilities;
- the presence of unevenness in the distribution of loans to individuals and corporate loans;
- insufficient development of non-bank credit institutions and microfinance institutions [8].

Currently, a joint bank operates in Uzbekistan with the participation of capital from foreign banks and international financial institutions. These include the Uzbek-Dutch "Uzprivatbank" and "ABN Amrobank Uzbekistan National Bank Joint Stock Company", the Uzbek-Turkish "O" Tbank", the Uzbek-South Korean "UzDEUbank". 13 foreign banks have opened their representative offices in Tashkent. These include Deutsche Bank, Berliner Bank, Maybank (Malaysia), Credit Suisse (Switzerland), "Credit Commercial de France", "Societe Generale" (France), the National Bank of Pakistan, Chase Manhattan (USA). There are also banks "Rossiysky Credit" and "Sakura Bank LTD" (Japan). Commercial banks include such important financial institutions as the National Bank, Ipoteka-bank, Asakabank, Agrobank, as well as private banks - Hamkorbank, Kapitalbank, TBC Bank. According to the results of 2024, more than 30 banks were operating in the country is developing.

The development of the banking system in the Republic of Uzbekistan after independence can be divided into the following stages:

Stage 1. Formation of the Banking System in Uzbekistan (1991–2000)

The initial stage of banking system development in Uzbekistan was characterized by the establishment of a legal and institutional framework. The adoption of laws regulating banking activity laid the foundation for the creation of a national banking system. A major step was the

establishment of the Central Bank of the Republic of Uzbekistan, which became responsible for monetary policy, currency issuance, and banking supervision.

The introduction of the national currency—the Uzbek soum—in 1994 marked a turning point, allowing the country to implement independent monetary policy.

Stage 2. Stabilization and Structural Development (2000–2016)

The second stage of development focused on strengthening the stability and reliability of the banking system. The government implemented policies aimed at increasing capitalization, improving asset quality, and enhancing regulatory oversight.

Developments during this period included:

- expansion of banking services to businesses and households;
- growth of deposit volumes and increased public trust;
- introduction of deposit insurance systems;
- gradual adoption of international accounting and reporting standards.

State-owned banks continued to play a dominant role, particularly in financing strategic sectors of the economy such as industry and agriculture. At the same time, efforts were made to encourage the development of private banks and attract foreign investment.

Despite these improvements, the banking system faced several structural limitations, including restricted currency convertibility and limited integration into global financial markets.

Stage 3. Liberalization and Modern Reforms (2017–Present)

A new phase in the development of Uzbekistan’s banking system began after 2017, marked by large-scale economic reforms. One of the most significant steps was the liberalization of the foreign exchange market, which eliminated currency restrictions and improved the business environment.

The government adopted the Banking Sector Development Strategy for 2020–2025, which outlines these priorities:

- reduction of state ownership in the banking sector;
- transformation and privatization of major state-owned banks;
- strengthening corporate governance;
- increasing the role of market mechanisms.

In recent years, the Central Bank of the Republic of Uzbekistan has also moved toward inflation targeting, improving monetary policy transparency and effectiveness.

Digitalization has become one of the main development directions of the banking sector. The introduction of mobile banking applications, internet banking systems, electronic payment platforms, QR code payments, biometric identification and real-time payment systems has significantly expanded the possibilities of using banking services for customers. By 2024, more than 70 percent of banking transactions will be carried out through digital platforms. This, along with reducing banks' operating costs, will improve the quality and speed of services in urban and

rural areas. Also, the activities of fully digital banks such as Anorbank and TBC Bank are giving impetus to the further development of banking services.

The privatization policy implemented by the state has created new opportunities for the development of the banking sector. In particular, structural changes and privatization processes are being gradually implemented in Ipoteka Bank, Asaka Bank and other large state-owned banks. These reforms will help attract foreign investors and international financial institutions, create a healthy competitive environment among banks, and increase the transparency of financial activities. As a result, corporate governance standards and international practices are being widely implemented in the banking system.

Expanding access to financial services is one of the priority tasks of the banking system. In particular, the development of banking services in rural areas, the introduction of remote services, and financial support for small and medium-sized businesses are of great importance. Small and medium-sized businesses account for more than half of the country's gross domestic product (GDP), so expanding their access to credit resources and financial services is an important factor in ensuring economic stability. At the same time, fintech applications, including Click, Payme, UzCard, and HUMO systems, are playing an important role in increasing financial inclusion.

The banking system of Uzbekistan is implementing important reforms to adapt to international financial standards. In particular, the Basel III principles, International Financial Reporting Standards (IFRS), risk management systems, and modern corporate governance mechanisms are being introduced. These changes serve to strengthen the stability of the banking system, increase financial transparency, and expand opportunities for attracting foreign investment.

The analysis also shows that digital banking services are developing rapidly. By 2024, more than 80 percent of banking transactions will be carried out electronically. This is explained by the widespread introduction of mobile banking applications, internet banking systems, electronic payment platforms, QR code payments and fintech services. The process of digitization has not only increased the efficiency of banking operations, but also expanded access to financial services, especially for the population living in rural areas, and increased the level of financial inclusion.

Conclusion

In conclusion, it can be stated that since the country's banking system gained independence, based on the analysis and data examined. All of the plans that were created for the upcoming year have been put into action at a discernible rate, contributing significantly to the growth of the banking system. These plans are still relevant today, not only in the Republic of Uzbekistan but in every country in the world. They include a well-developed plan, the adoption and enforcement of laws, and additions based on the outcomes of the previous period.

The development of the banking system in the Republic of Uzbekistan reflects the broader transformation of the national economy. Over the past three decades, the country has successfully created a functioning banking system based on market principles.

From the establishment of the Central Bank of the Republic of Uzbekistan and the introduction of the national currency to the implementation of modern reforms and digital technologies, Uzbekistan has made significant progress in building a stable and efficient financial system.

The banking system in Uzbekistan has developed significantly over the years of independence. As a result of reforms, the system is being shaped in accordance with modern demands and needs. In the coming years, the digitalization of the banking sector, openness, and integration into global financial markets will remain the main directions.

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