



BANKING SYSTEM IN UZBEKISTAN: PROBLEMS AND PROSPECTS

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ABSTRACT	KEY WORDS
<p>Topic. The article is dedicated to the analysis of issues and prospects of the banking system in Uzbekistan, exploring key aspects of its current state and identifying challenges it faces. Security issues in the banking system are also addressed.</p> <p>Purpose. The aim of this abstract is to examine a range of problems in the banking sector of Uzbekistan and identify possible solutions. The analysis includes the significance of regulation, financial risks, and technological challenges, along with proposing strategies to ensure stability and development of the banking system.</p> <p>Methodology. The research is based on the analysis of current data on the banking system of Uzbekistan, including financial reports, reports from regulatory bodies, and international assessments. Interview and abstraction methods are applied to identify key problems and prospects.</p> <p>Results. The analysis has identified several key problems, including bureaucracy, corruption, and a lag in digitization. Concrete measures are proposed for improving regulation and supervision, risk management, and innovation implementation, which can contribute to the stability of the banking system.</p> <p>Conclusions. In conclusion, it is emphasized that addressing the identified problems requires a comprehensive approach, including balanced regulation, development of financial instruments, and innovative updates. Paths for collaboration with the government, active implementation of digital technologies, and a change in banking culture are suggested to achieve a sustainable and adaptive banking system in Uzbekistan.</p>	<p>Banking system, digitalization, commercial bank, state bank, finances, economy.</p>

Introduction

The banking system plays a crucial role in shaping the modern economy, contributing to the stability and development of the national economy. Uzbekistan is actively modernizing its banking system to meet contemporary needs and align with international standards. The country's banking sector faces numerous challenges and opportunities as a result of the rapid transformation of the global economy.

This article is dedicated to a thorough analysis of Uzbekistan's banking system, focusing on the key issues it encounters, as well as the prospects for development in light of current global economic challenges. The author aims not only to highlight these issues but also to propose reasonable solutions to help the banking system function effectively in a rapidly changing economic environment.

The research topic is among the most relevant due to global economic modernization and is particularly significant for developing countries. The uniqueness of this study lies in the use of an empirical research method, which can lead to more accurate and evident results.

The research process examines the level of the country's banking system, the accessibility and efficiency of financial services, regulatory challenges, and the identification of prospects that could serve as catalysts for innovation and sustainable growth. Considering these essential elements will provide the reader with a comprehensive understanding of the current state of the banking system and offer concrete plans for its improvement.

Literature Review

Researchers and economists pay close attention to Uzbekistan's banking system as they seek to understand its current state, identify key challenges, and determine prospects for development. Recent literature highlights several important thematic areas, such as the efficiency of banking services, regulation, and compliance.

International experience and best practices in banking systems have attracted the interest of some scholars (H. Ismailov, R. Jumaniyazov, et al.). They study successful methods and developments that could be applied to improve Uzbekistan's banking system.

Studies by Sh. Alimov, G. Ismoilov, and others have identified issues related to digitalization, customer service, and innovation, which affect the efficiency of banking services. Their research suggests solutions to enhance customer experience and improve operational processes.

The work of N. Rakhmatov, S. Sharafutdinov, and others takes a comprehensive approach to analyzing Uzbekistan's banking system, incorporating systemic analysis. They emphasize the need to consider interconnected factors such as financial literacy, regulation, and technological innovations to build a more efficient and sustainable banking system.

Current State of the Banking System

Today, Uzbekistan's banking sector remains stable and active in the face of modern global economic challenges and trends. The Central Bank of the Republic of Uzbekistan, acting as the state's issuing and reserve bank as well as the central monetary authority, takes proactive steps to ensure the stability of the national currency, manage inflation, and develop the banking sector.

The use of digital technologies and technical advancements is a key component of the ongoing transformation of Uzbekistan's banking sector. Electronic banking services, mobile applications, and internet platforms are increasingly integrated into financial services, improving accessibility and efficiency for both consumers and businesses.

Since 2016, banking services have played a crucial role in trade and business development, benefiting both companies and the general population, primarily due to government support and initiatives led by President Shavkat Mirziyoyev. Within the framework of state programs such as the "Action Strategy" and "Development Strategy," commercial banks have been recognized as essential legal entities contributing to financial system growth. [1]

Currently, Uzbekistan's banking system includes more than 15 commercial banks, 12 state-owned banks, and 5 foreign banks. [2] Research findings indicate that over 80% of assets and capital belong to the state sector. However, this share is expected to decrease to 40% by 2025. [6]



Источник: <https://www.gazeta.uz/ru/2021/12/01/bank-system/>

Key Challenges and Issues

During the research, an interview was conducted with Said Mannapovich Karimov, an employee of Ipak Yuli JSCB with over 10 years of experience in the accounting department, where he held the position of Deputy Chief Accountant. He currently serves as the Head of the Credit and Investment Project Financing Department. According to him, “bureaucracy in the modern banking system has become a suffocating factor for business development. The lack of sufficient automation slows down processes and increases bureaucratic barriers, leading to delays in customer service.” Issues also arise in the depreciation of fixed assets, where an inefficient calculation system complicates accurate accounting and asset valuation.

Said Mannapovich also noted that “the taxation sphere is in chaos due to an inefficient VAT calculation system for fixed commissions. This creates unpredictability for business entities and complicates financial planning. Additionally, the process of opening and managing accounts for new business entities faces bureaucratic obstacles, slowing down enterprise development.”

Significant inconveniences are observed in state-owned banks, where long queues test customers' patience. Corruption, especially in the lending process for business entities, further worsens the business environment. In the first quarter of 2022 alone, over 120 corruption cases were recorded, making this issue the second most prevalent in the country. [3]

High fees and service charges also pose a problem. Some banks impose excessive interest rates on loans, account maintenance services, and money transfers, which can be costly, particularly for small businesses. The security of the banking system requires attention as well—cyberattacks and fraud

threaten clients and their financial assets. Recent cases of unauthorized withdrawals from customers' bank cards highlight this concern.

Our guest specifically pointed out "problems related to legal entities, where cash flow bypassing settlement accounts is partially unreported in quarterly or annual financial statements. This creates conditions for unfair competition, inefficient, and misdirected financial management."

Government interventions often contradict the interests of banks, frequently forcing them to allocate funds for programs such as "Yosh Tadbirkor" and "Har Bir Oila Tadbirkor." [4] In such cases, state and commercial banks are required to provide equal conditions and finance these targeted loans, often leading to significant losses. Additionally, the country's recent "green" policy mandates some bank clients to purchase eco-friendly equipment, such as solar panels, which results in additional expenses.

Prospects and Future Improvements

"State support for digitalization initiatives in Uzbekistan's banking system represents a strategic effort aimed at modernization. Engaging the population with digital technologies is an integral part of this process and serves as a key factor in achieving success," says Alisherjon Pozilov, Deputy Manager of the Mirabad branch of Ipak Yuli JSCB.

The digitalization of banking operations, including online financing for legal entities, is one of the most critical areas. This innovation not only expands access to financial services but also simplifies the loan application process by reducing paperwork and speeding up decision-making.

Reducing state involvement in the banking system will enhance its efficiency. This will allow commercial banks to increase their capital and compete more freely with state-owned banks. Eliminating off-the-books financial transactions is also a crucial step, enabling banks to better control financial flows and prevent illegal activities.

Integrating electronic money into the system will be another important milestone in improving the financial sector. [7] The modern world increasingly relies on digital wallets, and the rising demand for cryptocurrencies like Bitcoin and Ethereum could significantly influence this trend. Additionally, developing banking applications and expanding their functionality will be essential. The key is to promote these innovations among the population to ensure widespread adoption.

Strengthening financial stability and reliability is another promising direction. To mitigate financial risks and protect the interests of clients and depositors, banks are working to increase their capital buffers and comply with regulatory requirements. The banking system should also continue investing in the external economy and expanding its international partnerships. This will help attract foreign investors and maintain economic stability in the country.

A crucial area for development is improving security systems. The growing threat of cyberattacks and fraud in the banking sector demands significant investment in new and effective data protection methods, including biometric authentication and multi-factor security measures. These efforts will help build customer trust and safeguard their financial assets.

Another essential step in banking system development is improving financial service accessibility for the population. Many people, especially in remote and underserved areas, still lack access to basic banking services.

Future banking system updates will focus on enhancing customer convenience, operational efficiency, and data security. By leveraging modern technologies, banks can adapt to new demands and customer expectations.

Regulation and Supervision

Regulation and supervision of the banking system play a crucial role in ensuring the stability and reliability of the financial sector. Banks are key participants in the economy, providing services for fund storage and management. The primary goal of regulation and supervision is to ensure compliance with laws and financial security principles. Regulators, such as the Central Bank, develop and implement policies, standards, and regulations that set requirements for banks.

These requirements cover capital adequacy, liquidity, risk management, and financial reporting transparency. Banks must strictly adhere to these requirements and provide regulators with the necessary information. [5]

Supervisory authorities oversee banking activities to prevent potential violations of legislation. They conduct audits, review transactions, and ensure compliance with anti-money laundering and counter-terrorism financing rules. Additionally, supervisory bodies handle customer complaints and address them promptly and fairly.

Regulation and supervision of the banking system help prevent financial crises and protect depositors' interests. When the banking system operates correctly, it contributes to economic progress and strengthens trust in financial institutions.

It is important to note that banking regulation and supervision are essential components of financial stability strategies. They promote sustainable economic growth and prosperity while ensuring the reliability and security of banking services.

Conclusion: Challenges and Opportunities on the Path to a Sustainable Banking System

In conclusion, our analysis of Uzbekistan's banking system highlights significant challenges within the sector. However, looking at future prospects, we see considerable potential for transformation and improvement.

This research engaged professionals with extensive experience in the field. Through interviews, we identified key issues such as bureaucracy and corruption while also gaining insights into the future improvements expected in the country.

One of the primary challenges is balancing innovation and stability. The development of financial technologies requires active implementation, but it must be accompanied by reliable control mechanisms. Regulatory challenges also demand attention, especially in a globalized world where compliance with international standards is becoming increasingly critical.

Financial risks, such as credit and liquidity risks, remain crucial areas requiring improvement. Strengthening credit risk management mechanisms and enhancing liquidity management efficiency are key steps in ensuring the stability of the banking system.

In the face of technological challenges, cybersecurity has become a cornerstone of protecting both banks and their clients. The integration of new technologies must go hand in hand with robust information security measures.

By adopting constructive measures to improve regulation and supervision, enhancing financial instruments, and taking an innovative approach to development, Uzbekistan's banking system can transition to a new stage of growth. Partnerships with other countries, effective use of digital technologies, and the evolution of banking culture will play a crucial role in creating a resilient and adaptive banking system. This system will be capable of responding to the challenges of the modern economic environment while providing high-quality services for both individuals and businesses.

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