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PROSPECTS FOR THE DEVELOPMENT OF THE BANKING SYSTEM IN THE REPUBLIC OF UZBEKISTAN

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Abstract:
This article examines the formation, evolution, and prospects for the development of the banking system in the Republic of Uzbekistan from the moment of independence in 1991 to the present day. The study identifies three key stages of development: the establishment of a national banking system (1991–2003), the period of consolidation and structural adjustment (2003–2017), and the era of liberal reforms and digitalization (2017–present). The article analyzes the legislative framework, institutional transformations, and macroeconomic factors that have shaped the current structure of the banking sector. Particular attention is paid to the privatization of state-owned banks, the expansion of financial inclusion, and the integration of digital technologies into banking services. The author identifies the principal challenges confronting the sector, including the continued dominance of state capital, insufficient development of rural banking infrastructure, and low levels of financial literacy among the population. Based on the findings, strategic recommendations are proposed for the further modernization of Uzbekistan's banking system in accordance with international standards.

Keywords: Banking system, Uzbekistan, financial reforms, independence, state-owned banks, digitalization, financial inclusion, liberalization

1. INTRODUCTION

The banking system constitutes one of the fundamental pillars of any national economy, serving as the primary mechanism for capital accumulation, credit allocation, and financial intermediation. The efficiency and stability of the banking sector are widely recognized as critical determinants of sustainable economic growth and development.

Upon gaining independence in 1991, the Republic of Uzbekistan inherited a banking infrastructure entirely subordinate to the centralized Soviet financial system, which was structurally incompatible with the requirements of a sovereign market economy. The transition from a command economy to a market-oriented system necessitated the complete reconstruction of the national banking sector, including the establishment of an independent central bank, the creation of a two-tier banking system, and the development of an appropriate regulatory and legislative framework.

Over the subsequent three decades, Uzbekistan's banking system has undergone significant transformation. The country has progressed from the initial stage of institutional formation through a prolonged period of state-directed consolidation, ultimately arriving at the comprehensive reform agenda initiated under Presidential Decree No. UP-4947 of September 7, 2017, which defined the strategic directions for the further development of the banking system through 2025.

Despite considerable progress, the banking sector continues to face structural challenges, including the predominance of state ownership, limited penetration of banking services in rural regions, and the relatively early stage of digital financial infrastructure development.

The purpose of this article is to conduct a systematic analysis of the development of Uzbekistan's banking system from 1991 to the present, to identify the key factors influencing its evolution, and to formulate evidence-based recommendations for its further advancement in accordance with international best practices.

The methodology of the study is based on the analysis of legislative acts, statistical data published by the Central Bank of the Republic of Uzbekistan, reports of international financial institutions, and peer-reviewed academic literature.

2. LITERATURE REVIEW

The development of banking systems in post-Soviet transition economies has been the subject of extensive academic inquiry. Scholars have examined the structural, institutional, and macroeconomic dimensions of banking sector reform from multiple theoretical perspectives, providing a substantial body of literature upon which the present study draws.

Early foundational contributions to the understanding of banking sector transition were made by Berglof and Bolton (2002), who demonstrated that the restructuring of financial institutions in formerly centralized economies requires not only legislative reform but also the simultaneous development of market discipline and corporate governance mechanisms. Their findings are directly applicable to the Uzbek context, where the persistence of state ownership has historically limited competitive pressures within the banking sector.

The specific trajectory of financial sector reform in Central Asia has been analyzed by Pomfret (2006), who identified Uzbekistan as a case of gradual and state-controlled liberalization, contrasting it with the more rapid reform processes undertaken in Kazakhstan and the Kyrgyz Republic. Pomfret argued that while gradualism provided macroeconomic stability in the short term, it simultaneously retarded the development of private banking and foreign capital participation.

With respect to the post-2017 reform period, Tashmatov and Yusupov (2020) conducted a quantitative assessment of the impact of currency liberalization on the liquidity and credit activity of Uzbek commercial banks, concluding that the unification of the official and market exchange rates in September 2017 produced a measurable improvement in banking sector transparency and foreign investor confidence.

The role of digitalization in the transformation of banking systems in developing economies has been comprehensively addressed by Demirguc-Kunt, Klapper, and Singer (2017) in their Global Findex Database report, which demonstrated a strong positive correlation between the adoption of digital financial services and improvements in financial inclusion indicators.

The regulatory dimension of banking reform has been examined by Honohan and Beck (2007), who established that the quality of prudential supervision and the independence of central banking institutions are among the most significant predictors of banking system stability in emerging markets.

Regional comparative studies, including those conducted by the European Bank for Reconstruction and Development (EBRD, 2021) and the International Monetary Fund (IMF, 2022), have consistently identified Uzbekistan as one of the most dynamically reforming banking jurisdictions in the Commonwealth of Independent States, while simultaneously noting that the share of non-performing loans and the level of state participation in the banking sector remain above regional best-practice benchmarks.

Collectively, the existing literature confirms that Uzbekistan's banking system occupies a transitional position between a state-directed financial model and a fully liberalized market-based system. The present article builds upon this body of research by providing an integrated historical and prospective analysis of the sector's development, with particular emphasis on the institutional and technological dimensions of ongoing reform.

3. METHODOLOGY

The present study employs a qualitative research design based on systematic analysis of primary and secondary sources pertaining to the development of the banking system in the Republic of Uzbekistan over the period from 1991 to the present day.

3.1 Research Design

The research is structured around a historical-analytical framework, which enables the examination of the banking sector's evolution across three chronologically defined stages. This approach allows for the identification of causal relationships between legislative and institutional changes on the one hand, and shifts in the structural and functional characteristics of the banking system on the other. The historical-analytical method is supplemented by a comparative approach, whereby selected indicators of Uzbekistan's banking sector are assessed against regional and international benchmarks.

3.2 Data Sources

Primary sources include legislative acts of the Republic of Uzbekistan, including the Law on the Central Bank of the Republic of Uzbekistan (1995, as amended), the Law on Banks and Banking Activity (1996, as amended), and Presidential Decree No. UP-4947 of September 7, 2017. Statistical data published in the annual reports and official statistical bulletins of the Central Bank of the Republic of Uzbekistan for the period 2000–2023 are also treated as primary sources.

Secondary sources comprise peer-reviewed academic articles, monographs, and analytical reports published by international financial institutions, including the International Monetary Fund, the World Bank, the European Bank for Reconstruction and Development, and the Asian Development Bank.

3.3 Methods of Analysis

Descriptive statistical analysis is employed to characterize the quantitative dynamics of key banking sector indicators. Content analysis is applied to legislative and regulatory documents. Comparative analysis is utilized to position Uzbekistan's banking sector relative to comparable transition economies in the Central Asian region, drawing upon data from the EBRD Banking Sector Transition Indicators and IMF Financial Soundness Indicators databases. Periodization is employed as a structural method to delineate the three principal stages of banking system development.

3.4 Limitations

The present study acknowledges several limitations. First, the availability of reliable and internationally comparable statistical data for the early transitional period (1991–2000) is constrained by the incomplete development of national statistical infrastructure. Second, as a qualitative study, the findings do not permit the construction of predictive econometric models. Third, the rapidly evolving nature of the reform agenda means that certain regulatory developments occurring after December 2023 are not reflected in the analysis.

4. RESULTS AND DISCUSSION

Table 1. Key Indicators of Uzbekistan's Banking Sector by Development Stage

Indicator	Stage I (1991–2003)	Stage II (2003–2017)	Stage III (2017–2023)
No. of licensed banks	~26–31	~26–33	33–36
State share in assets	Est. >90%	~85%	67% (2023)
Assets / GDP	N/A	~23–38%	38–55%
Key legislation	Laws on CBU & Banks (1995–96)	Basel I adoption	Decree UP-4947; Basel III
Monetary regime	Dual exchange rate	Dual exchange rate	Unified rate (2017)

Source: Central Bank of the Republic of Uzbekistan; IMF FSAP (2025); World Bank.

4.1 Stage One: Establishment of the National Banking System (1991–2003)

Following the declaration of independence on September 1, 1991, the Republic of Uzbekistan faced the immediate imperative of constructing a sovereign financial system. The inherited Soviet banking infrastructure, consisting of specialized state banks subordinate to Gosbank USSR, was entirely incompatible with the requirements of an independent market economy.

The Central Bank of the Republic of Uzbekistan was established in 1991 as the supreme monetary authority, assuming responsibility for the issuance of the national currency, the regulation of monetary policy, and the supervision of commercial banking institutions. The introduction of the Uzbek sum in July 1994 represented a defining milestone in the assertion of monetary sovereignty.

The legislative foundation was formalized through the Law on the Central Bank (1995) and the Law on Banks and Banking Activity (1996), establishing the two-tier banking system and the basic regulatory framework for licensing, capital adequacy, and prudential supervision.

A number of large state-owned specialized banks were established, including the National Bank for Foreign Economic Activity of Uzbekistan (NBU), Asaka Bank, Agrobank, and Qishloq Qurilish Bank. By 2003, Uzbekistan possessed approximately 31 licensed commercial banks, as shown in Figure 1.

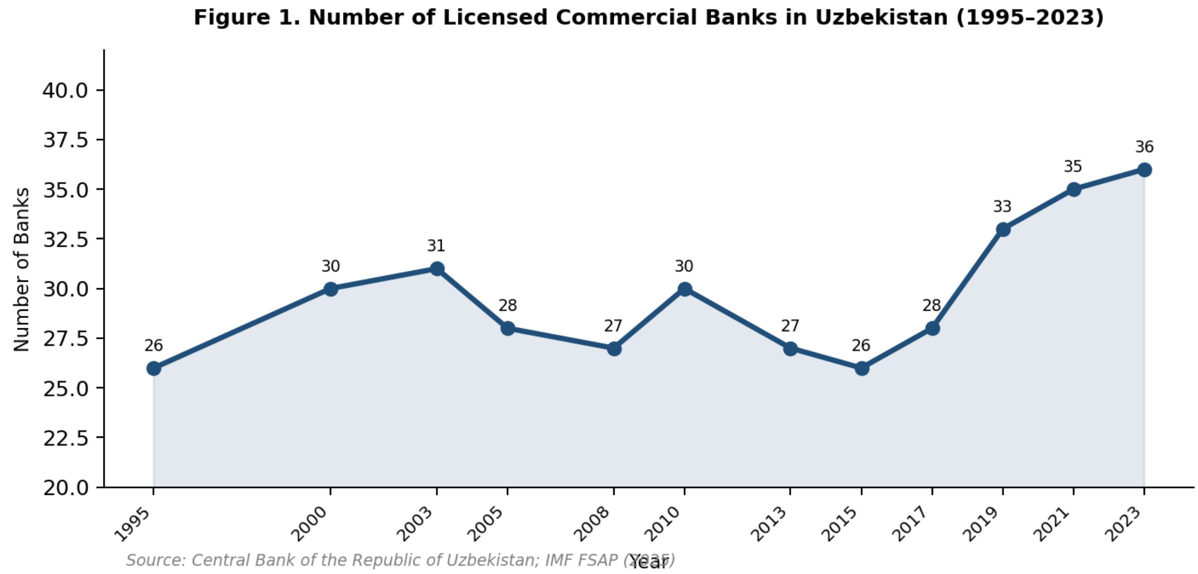

Figure 1. Number of Licensed Commercial Banks in Uzbekistan (1995–2023) Source: Central Bank of the Republic of Uzbekistan; IMF FSAP (2025)

4.2 Stage Two: Consolidation and State-Directed Development (2003–2017)

The second stage was characterized by a deliberate policy of banking sector consolidation under continued state direction. The government pursued a strategy of increasing minimum capital requirements and reinforcing the dominant position of large state-owned banking institutions.

As illustrated in Figure 2, the ratio of banking sector assets to GDP increased progressively from approximately 23 percent in 2005 to 38 percent by 2017, reflecting the growing financial intermediation capacity of the sector.

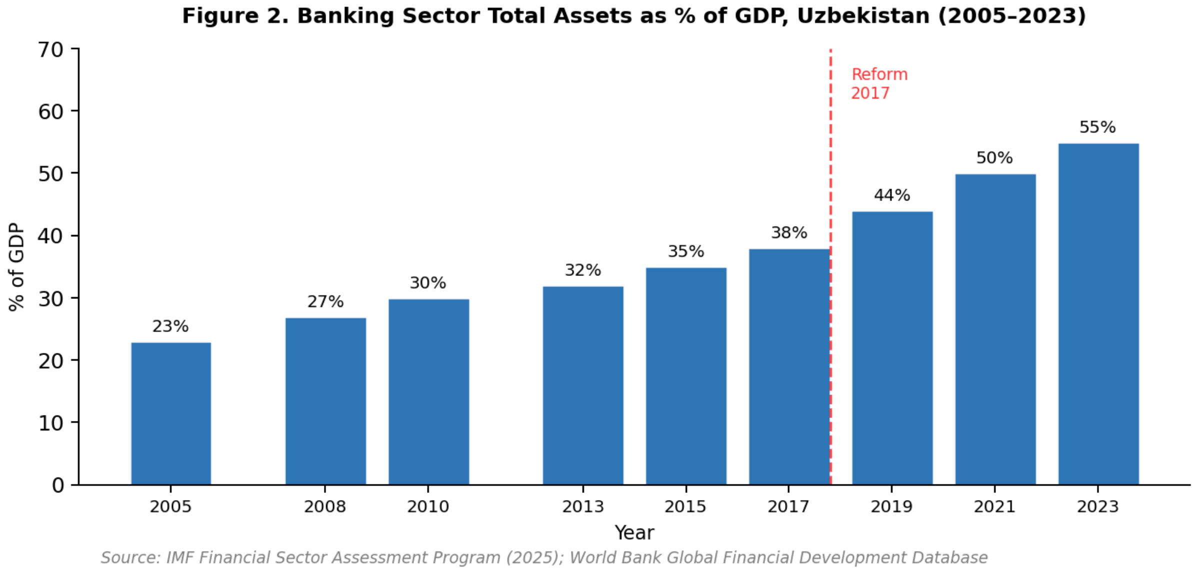

Figure 2. Banking Sector Total Assets as % of GDP, Uzbekistan (2005–2023) Source: IMF Financial Sector Assessment Program (2025); World Bank Global Financial Development Database

By 2017, state-owned and state-controlled banks accounted for approximately 84 percent of total banking sector assets, a concentration ratio that significantly constrained competitive dynamics. A further structural constraint was the maintenance of a dual exchange rate system, which discouraged foreign investment and generated substantial currency risks for commercial banks.

4.3 Stage Three: Liberal Reforms and Digitalization (2017–Present)

The third stage was inaugurated by Presidential Decree No. UP-4947 of September 7, 2017, which established the strategic framework for the transformation of Uzbekistan's banking system through 2025. The most consequential early measure was the unification of the official and market exchange rates in September 2017, which eliminated the dual exchange rate system that had constrained the sector for over a decade.

The reform agenda encompassed partial privatization of state-owned banks. As demonstrated in Figure 3, the state's share of banking sector assets declined from 84 percent in 2017 to 67 percent by end-2023 (IMF FSAP, 2025).

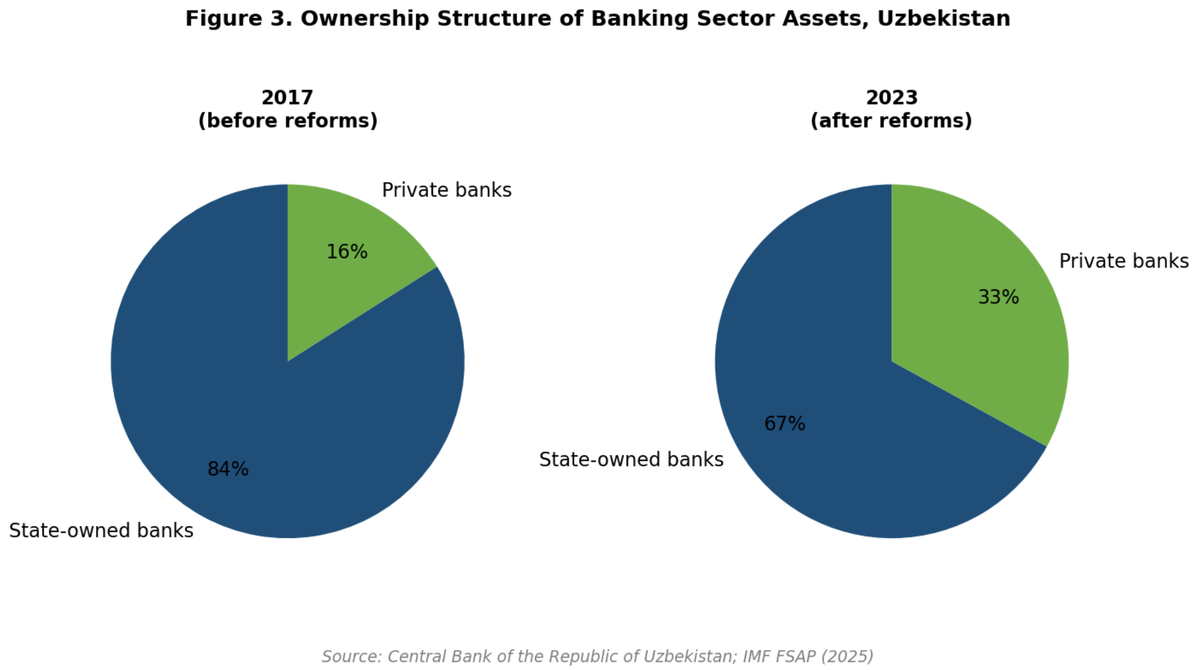

Figure 3. Ownership Structure of Banking Sector Assets: 2017 vs 2023 Source: Central Bank of the Republic of Uzbekistan; IMF FSAP (2025)

Financial inclusion indicators have shown consistent improvement. As reflected in Figure 4, bank accounts per 1,000 adults rose from 786 in 2017 to 849 in 2020. The number of active payment cards exceeded 30 million by 2022, supported by rapid proliferation of mobile banking applications.

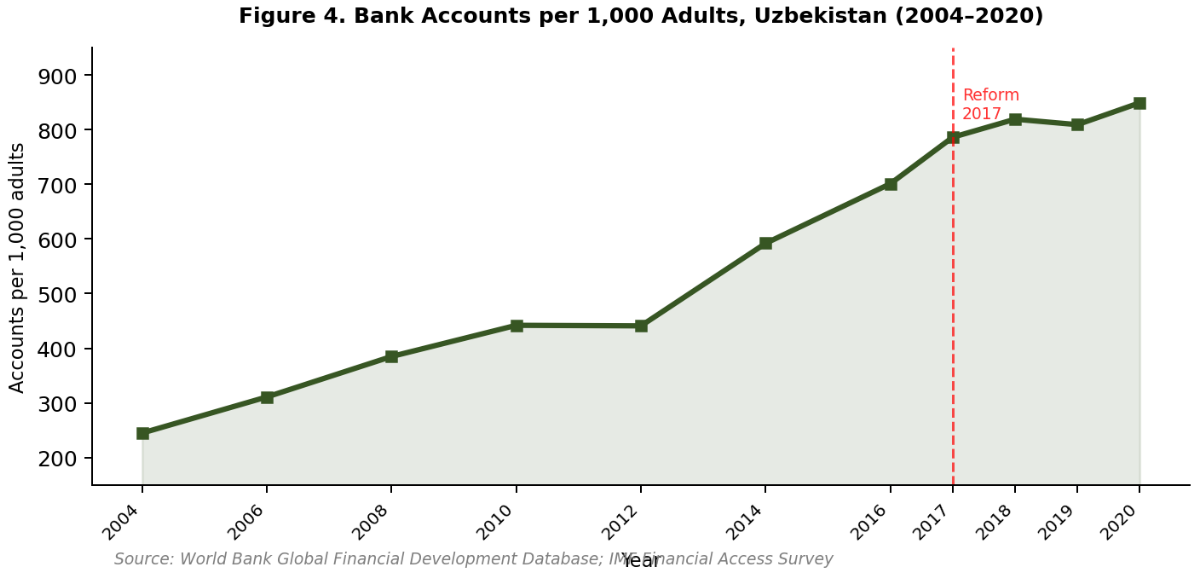

Figure 4. Bank Accounts per 1,000 Adults, Uzbekistan (2004–2020) Source: World Bank Global Financial Development Database; IMF Financial Access Survey

The aggregate bank capital adequacy ratio has been above 17 percent since 2020, against the regulatory minimum of 13 percent (World Bank, 2025). Between 2017 and 2023, the annual recapitalization of state-owned commercial banks using public funds ranged between 0.4 and 2.0 percent of GDP, cumulatively amounting to USD 5.8 billion (IMF, 2025).

Despite substantial progress, the share of state ownership remained at 67 percent as of end-2023. Progress in bank privatization has been slower than anticipated, hampered by the COVID-19 pandemic and geopolitical disruptions.

5. CONCLUSION

The development of the banking system of the Republic of Uzbekistan over the three decades since independence represents a trajectory of progressive institutional transformation, from a rudimentary post-Soviet financial structure toward an increasingly modern, market-oriented, and digitally integrated banking sector.

The first stage (1991–2003) successfully established the foundational institutional architecture, including the legislative framework, the two-tier structure, and the principal state-owned banking institutions. The second stage (2003–2017), while delivering macroeconomic stability and incremental growth in banking sector assets, was constrained by the persistence of state dominance and the dual exchange rate system. The third stage of reform (2017–present), initiated under Presidential Decree No. UP-4947, has delivered measurable improvements across multiple dimensions, including exchange rate unification, partial privatization of state-owned banks, advancement of financial inclusion, and development of digital banking infrastructure.

Nevertheless, the analysis has identified structural challenges that must be addressed. First, state-controlled banks accounting for 67 percent of total assets as of end-2023 constrains market competition. Accelerating the privatization program represents a policy priority of the first order. Second, the development of rural banking infrastructure and improvement of financial literacy remain prerequisites for meaningful financial inclusion. Third, the regulatory framework must continue to evolve in alignment with international prudential standards.

Looking forward, the strategic direction should be guided by three overarching objectives: reducing state ownership concentration to below 50 percent of sector assets by 2030; achieving full Basel III compliance; and establishing a comprehensive regulatory framework for digital financial services and fintech companies. Consistent implementation of these objectives, in conjunction with the broader macroeconomic reform agenda, holds the potential to significantly enhance the efficiency, competitiveness, and resilience of Uzbekistan's banking system in the medium and long term.

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