

## DEVELOPMENT OF THE BANKING SECTOR IN UZBEKISTAN: TRENDS AND PROSPECTS

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**Abstract:** *A further improvement of the efficiency of commercial banks will contribute to the development of the financial market, primarily in terms of the growth of the capital market and long-term loans. The article reveals the current condition of commercial banks assets. Moreover, it covers the loan portfolios of commercial banks.*

**Key words:** *commercial banks, asset, capital market, long-term loans.*

### 1. Introduction.

Performing an important function of an investment intermediary, commercial banks constantly improve their activities, maintain financial stability and growth of banking operations, offer qualitatively new technologies and banking products in all segments of the financial market.

In the national economy, the banking sector occupies a special place, because it has specific functions inherent only to it. The banking sector plays a key role in the functioning of domestic and international payments and settlements, being the subject of the issue of money and basic institutional guide monetary policy, by supporting and providing financial flows in the country, providing economic development. Banks carry out traditional storage of savings and savings on Bank deposits, that is, the Bank acts as a socially important institution. At the same time, banking is subject to a significant number of risks and belongs to the riskiest types of business.

The Strategy for further development of the Republic of Uzbekistan in 2017-2021 provides for "deepening the reform and increasing the stability of the banking system, the level of capitalization and Deposit base of banks, strengthening their financial stability and reliability, further expansion of lending to promising investment projects, as well as small businesses and private entrepreneurship" [1].

In the past years, the banking sector has undergone dramatic changes. In accordance with the decree of the President of the Republic of Uzbekistan No.5177 as of September 2, 2017 "On priority measures for the liberalization of foreign exchange policy", conversion on current international operations for a wide range of enterprises was introduced, equal and transparent conditions for the purchase of foreign currency at the market rate were created. Legal entities were able to freely convert their own funds in banks into foreign currency without any restrictions or additional conditions, control the feasibility of the acquisition, waiting for the transaction for an indefinite period.

Devalued almost twice the rate of national currency was eliminated disparities between the value of import and export operations when you have several courses have reduced the interest of industrial enterprises to increase exports of its products. Moreover, this decree completely abolished the mandatory sale of foreign exchange earnings from the export of goods for all exporting enterprises, regardless of ownership and exported products.

An important consequence of the first steps to liberalize the foreign exchange market was the alignment of the value in circulation of cash and non-cash funds, the closure of the shadow market segment, when in the conditions of the possibility of acquiring foreign currency only for cash, one-day firms that only cashed money flourished in the market.

### 2. Literature review.

There are several scholars who conducted their research on bank sector, particularly, Mushtaq M Bhat (2019) whose study finds out service quality parameters in bank through

servqual and influence of demographic variables. Sample size was 800 and study found out that foreign banks are better than Indian banks. SBI was found to be relatively poor on reliability and responsiveness.

Atul Subbiah (2016) focuses on service quality of four leading banks and their comparison. Moreover, Joshua A J, V Moli and P. Koshi studied evaluated and compared service quality in old and new banks using sample size of 480. The study found out that customers were satisfied in reliability, empathy and price and for other parameters the difference between expectations and perceptions were smaller than public sector banks

### **3. Analysis and results.**

According to the Resolution of the President of the Republic of Uzbekistan No. 3270 as of September 12, 2017 "On measures to further develop and improve the stability of the banking system of the Republic of Uzbekistan", the minimum size of the authorized capital (Fund) of newly created commercial banks was established in the national currency in the amount of 100.0 billion sums.

The document also made an important decision to abolish such unusual functions for the banks, as the control of the formation of overdue receivables and payables of economic entities and inappropriate use by economic entities of cash received from the cashier of banks, which has long been the object of criticism of international financial institutions. This decree approved a Set of measures for the further development of the banking and financial system for the period 2017-2021, which covers such areas as increasing capitalization and ensuring liquidity, improving the risk management system, improving the quality of the loan portfolio, innovative development of banking services based on the use of digital technologies and progressive foreign experience.

Almost simultaneously, the President of the Republic of Uzbekistan adopted Resolution No.3272 as of September 13, 2017 "On measures for further improvement of monetary policy", which decided to reorient the principles and mechanisms for achieving the objectives of the monetary policy of the Central Bank. A set of measures to further improve monetary policy for the period 2017-2021 with a gradual transition to the inflation targeting regime, which is used by Central banks in many countries to maintain the stability of domestic prices, has been approved.

In order to ensure transparency and predictability of monetary policy, strengthening the relationship with the public, awareness on the applied instruments and the ultimate goals of Central Bank policy greatly expanded the openness of financial performance. For the first time in the open access on the official website of the Central Bank presents data on foreign exchange reserves of Uzbekistan and monetary aggregates, as well as analytical materials on the activities of the banking sector, drafts of important regulatory documents. Such openness contributes to a deeper understanding of the decisions taken, becomes the basis for increasing the level of economic, financial and legal literacy of the population.

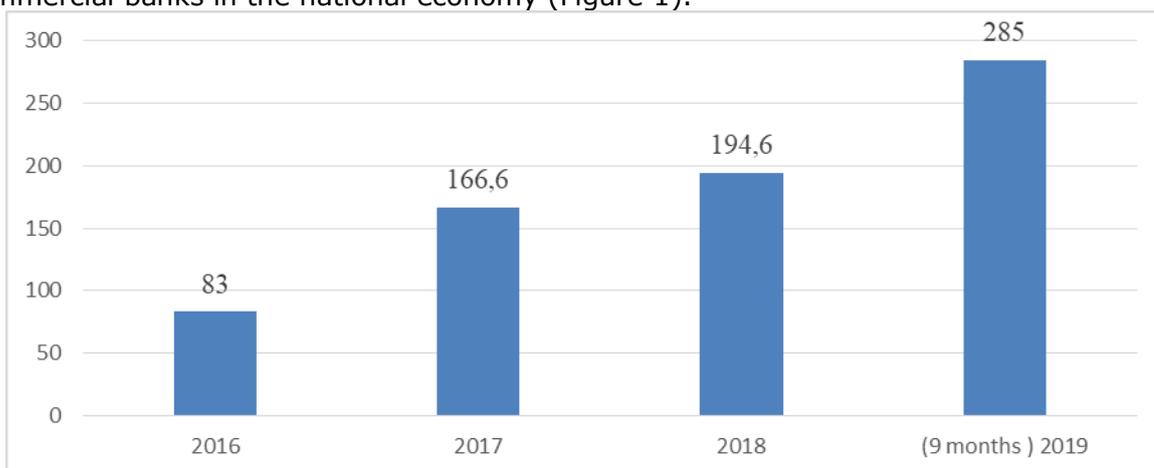
Increased use of collegial decisions created by the banking supervision Committee and Credit Committee of the Central Bank of the Republic of Uzbekistan, whose main tasks were the implementation of measures to maintain the stability of the banking system, protection of interests of depositors and creditors and the conduct of monetary operations of the Central Bank.

In March 2018, the Decree of the President of the Republic of Uzbekistan No. 3620 "On additional measures to improve the availability of banking services" was adopted, aimed at improving the efficiency and quality of banking services, which provides for serious changes in the mechanism of lending, improving payment systems and settlements by means of plastic cards.

The creation of the banking consumer protection Service of the Central Bank demonstrates the new priorities of banking services, sets the main tasks to protect the rights and legitimate interests of consumers of banking services, increase the availability of financial services and the level of financial literacy of the population and business entities.

According to the Central Bank (as of October 2019), there are 29 commercial banks in the Republic, including 13 with the participation of the state share, and 16 other banks. The total volume of assets of the banking system until September of 2019 increased almost for 70 percent in comparative September of 2018. In other words, bank assets were 284 923 trillion sums in nine months of 2019, whereas 194 555 trillion sums in 2018. In 2017 increased almost 2 times and amounted to 166.6 trillion sums. Excluding the impact of the

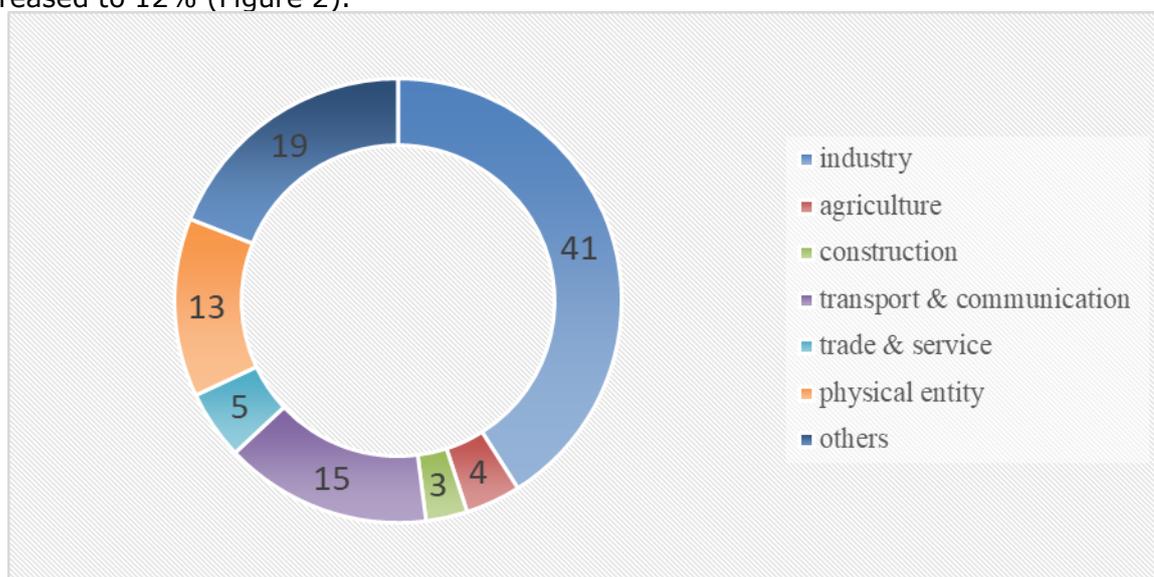
devaluation, Bank assets increased by 22%. The ratio of assets to GDP of the Republic is 66.9% against the same indicator of 2016 42.2%, which indicates an increase in the role of commercial banks in the national economy (Figure 1).



Source: Calculated based on the Central Bank's data

This year, special attention will be paid to increasing the capitalization of individual banks, as today the authorized capital of seven commercial banks does not meet the minimum requirements. In last years, banks as "Uzagroexportbank" with a capital of 80 billion sums or "Davr" Bank 93 billion sums may need only capitalization of current profits, other commercial banks – "Turkistonbank" (40 billion sums), "Universalbank" (34 billion sums), "Ravnaq-bank" (37 billion sums), "Hi-tech bank" (47 billion sums) and "Madad invest Bank" (22 billion sums) most likely, an additional issue will already be required, or the issue of merging individual commercial banks will be considered by the decision of the founders. The share of commercial banks with state participation remains high: they account for 82% of total assets, 88.4% of the loan portfolio and 65.8% of deposits of the entire banking system (Abdurakhmanov, 2018).

State policy throughout the period of development of the banking system created special conditions for banks, stimulating lending to sectors strategically important for the national economy and socially important areas. The priority direction of Bank crediting is financing of implementation of investment projects in the field of introduction of modern production and resource-saving technologies, creation of new hi-tech types of productions, development of infrastructure, expansion and strengthening of small business and private entrepreneurship in the production sphere. The credit portfolios of commercial banks continue to be dominated by lending to the industrial sector, information communications and transport. It is noteworthy that at the end of 2017, the share of lending to individuals increased to 12% (Figure 2).



Source: Calculated based on the Central Bank's data

Cooperation with international and foreign financial institutions has significantly intensified. The European Bank for reconstruction and development is working on the financial market again, with which in 2017 credit agreements worth USD186 million were signed, it is planned to implement 15 investment projects this year alone. Cooperation with the world Bank Group is expanding: the amount of reserved funding in 2018 is USD 840 million – the highest figure in the last five years [6].

The largest partner of the international investment cooperation of Uzbekistan remains the Asian Development Bank, which has a portfolio of investment projects in the country, calculated up to 2020, USD 2.9 billion Spheres of successful cooperation are the development of energy and transport, improving city infrastructure, improving the quality of public services, and expansion of access to Finance for small and medium enterprises, representatives of agribusiness.

In the medium term, two main strategic objectives have been identified that will determine the development of the banking sector in Uzbekistan. First, improving the financial stability of banks and expanding the range of financial services in the domestic market. Secondly, the activation of Uzbekistan's banks in the international capital market. All these measures, of course, indicate the desire and readiness of our country to integrate into the global world economy.

#### **4. Conclusion.**

For further development of commercial banks as investment intermediaries it is proposed to consider the following areas:

- the banking system has already developed a positive practice of commercial banks with the participation of foreign capital, when the main foreign financial partner are international financial institutions and state development banks of foreign countries. The time has come to attract foreign commercial banks, primarily from the countries-the main trading partners, such as the Russian Federation and China;
- measures should be taken to develop a secondary securities market with open circulation of shares of commercial banks, which will increase the transparency of their financial activities and provide an opportunity to assess the efficiency and cost of capital;
- large state-owned banks should develop measures to enter the international capital markets, with the possible initial placement of debt receipts, and subsequently shares of commercial banks;
- innovative development of banking products and expansion of the range of banking services for individuals through the use of the latest information technologies and the development of Internet banking;
- in order to increase the competitiveness of commercial banks, it is necessary to introduce innovations in the business processes and management system of a commercial Bank;
- increase of investment activity of commercial banks on the long-term credit market and securities market through the introduction of a wide practice of mixed financing of investment projects at the expense of long-term loans or project financing, and by promoting enterprises to issue corporate bonds under specific investment projects;
- improvement of the regulatory framework and creation of additional fiscal incentives for more active participation of banks at the project development stage, as well as the creation of banking syndicates to Finance large innovative projects;
- attraction of foreign investment funds, international economic and financial institutions in the creation of joint investment companies with commercial banks to Finance the start-up capital of innovative projects with the possible subsequent sale of the participation stake of the financial institution to the main founders.

Also, a separate area of improvement of banking activities may be their greater participation in the development of export potential, the introduction of consumer lending schemes under the guarantee of reliable and financially stable foreign correspondent banks for the purchase of domestic goods, works and services. In this case, the recipient of the service are foreign borrowers who attract financing for the purchase of products and services with subsequent repayment of the loan.

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