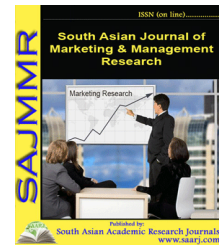




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PROSPECTS FOR THE DEVELOPMENT OF THE BANKING SECTOR OF THE REPUBLIC OF UZBEKISTAN

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ABSTRACT

This article examines the trends in the development of the banking sector of the Republic of Uzbekistan. The role of innovative financial services and the development of a set of programs for the development of the banking sector were also particularly studied

KEYWORDS: *Credit Programs, Long Money, Availability Of Banking Services, Investment Policy, Fintech Companies.*

INTRODUCTION

One of the most important characteristics of the modern economic development of Uzbekistan has been the rapid growth of the banking sector. Given that Uzbek banks are very deeply involved in financing long-term investment projects, "long money" is a necessary component of the funding base, which acutely determines the relevance of basic research in this direction. The lack of "long-term investments", which are formed in the economy through several channels: bank lending, government spending, the capital market, leads to the fact that the economy, sooner or later, faces the need to develop a local market for long-term debt obligations. However, according to the international rating agency Moody's Investors-Service, despite the successful financial positions of Uzbek banks and GDP growth, there is a "low penetration" of financial services in the economy, and leading bankers can not agree with this: The assets of the banking sector in Uzbekistan account for approximately 30 % of GDP .

During the period of independence of the country, banks were created for certain purposes and tasks with active involvement in financing enterprises with the participation of the state and state development programs at preferential interest rates. As a result, the share of concessional loans is

more than 60 % of the total portfolio of the banking system. The state has a dominant position in the banking sector – 13 of the 32 banks have state participation in the capital, their capital accounts for more than 87 % of the total capital, and assets – more than 85 % of the total assets of the banking system. The active phase of banking sector reforms, launched in 2017, is aimed at liberalizing the foreign exchange market, removing outdated restrictions in banking activities and freeing banks from uncharacteristic functions, and expanding the availability of banking services. In 2019, a number of qualitative changes were implemented in the banking system, including: принятие

the adoption of the new version of the laws of the Republic of Uzbekistan "On Banks and Banking Activities" and "On the Central Bank of the Republic of Uzbekistan", which correspond to modern standards and principles of banking;

реформ Reform of financing mechanisms for investment projects with the participation of the Fund for Reconstruction and Development of Uzbekistan;

* abandoning the practice of lending to government programs at interest rates lower than the main rate of the Central Bank and switching to market-based lending conditions from 2021;

* Conducting a joint assessment with the World Bank of the mechanisms and procedures for prudential supervision of commercial banks for their compliance with the principles of the Basel Committee.

The investment policy pursued by the banking system has its effect in ensuring financial and economic stability by modernizing the technical and technological renewal of the economy, dramatically increasing its competitiveness, increasing export potential, organizing new production facilities based on innovative and energy-saving technologies, and developing production facilities for the production of new types of products that are in demand on the world market. In particular, in 2018, commercial banks allocated investment loans in the amount of 38.8 trillion rubles for the modernization, technical and technological renewal of production, and the organization of the production of competitive products based on modern technologies. Sum or 2.4 times more than in 2017.

The banks' investment activities focus on ensuring timely and full financing of projects included in the programs of industry development, localization and regional development. As a result of the measures taken and innovations in the banking sector, the bank's equity capital adequacy has also increased significantly in just one year (Table 1).

TABLE 1

Capital adequacy of the banking sector ¹				
Indicator name	01.02.2020 г.		01.02.2021 г.	
	млрд. сум	доля в%	млрд. сум	доля в%
	Capital of the first level	48 107	89,6	53 415
<i>Fixed capital</i>	48 069	89,6	53 297	89,9
<i>Additional capital</i>	38	0,1	118	0,2

Capital of the second level	5 555	10,4	5 844	9,9
Total regulatory capital	53 662	100	59 259	100
<i>Capital adequacy ratio</i>	23,4		18,5	
<i>Tier 1 capital adequacy ratio</i>	21,0		16,7	

Improving the efficiency of the banking system is a key factor in economic development to meet the growing needs of business entities and the population in affordable and high-quality financial services. In this regard, the Strategy provides for the implementation of the following activities::

- 1) Expanding the range and quality of banking services by attracting international best practices and technologies;
- 2) improvement of management in banks by introducing advanced standards and experience of corporate governance, ensuring accountability and transparency of the activities of bank management bodies and proper disclosure of information by them;
- 3) increasing the commercialization of banks ' activities, eliminating subsidized lending, which will ensure the financial stability of the banking system, as well as increase the effectiveness of monetary policy instruments;
- 4) increasing the role of commercial banks as financial intermediaries that ensure the mobilization of savings into investments and direct them to finance the most financially and economically efficient areas, etc.,

An important element of the reform of the banking system is the privatization of commercial banks. According to the Presidential decree "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025", the main directions of reforming the banking sector in the Republic of Uzbekistan were identified, including the privatization of banks with state participation. The transformation of banks with the participation of the state with the support of international financial institutions and their sale to foreign strategic investors will lead to the improvement of the system of corporate governance and risk management in banks, the introduction of new technological solutions in the banking system, taking into account the best foreign experience, as well as to a change in the business models of banks and an increase in their level of customer focus. In order to implement this task, it is provided:

- 1) Consistent elimination of the administrative burden on credit institutions by freeing them from performing uncharacteristic functions, as well as excessive encumbrances;
- 2) creating the necessary conditions for the widespread introduction of modern information and communication technologies, automation of business processes of commercial banks and expanding the range of remote banking services;
- 3) reduction of the state share in a number of commercial banks with the involvement of strategic investors with the appropriate experience, knowledge and reputation in banking. The implementation of these tasks in practice will also significantly affect the dynamics of the liquidity of the banking sector, whose current state is shown in Table 2.

TABLE 2

Dynamics of banking sector liquidity ²		
Indicator name	01.02.2020 г.	01.02.2021 г.
Highly liquid assets (billion soums)	28 895	46 194
Ratio of highly liquid assets to total assets, %	10,5	13,2
Liquidity coverage ratio (min. value 100%)	198,0	135,3
Net stable financing ratio (min. value 100%)	111,8	110,3
Instant liquidity ratio (min. value 25%)	47,2	66,8

Increasing the availability of financial services involves increasing access to basic banking services (deposit, credit and payment services), including underserved segments (low - income individuals, rural populations, micro-and small firms). In order to increase the availability of financial services, the following measures are envisaged::

- 1) Develop, with the assistance of the World Bank, and implement a National Strategy for Improving Financial Inclusion that defines clear and coordinated directions for improving financial inclusion;
- 2) Concentration of the state presence in underserved segments so that subsidized credit programs are targeted at underserved and vulnerable segments, and subsidies are limited in time;
- 3) development of a holistic and cost-effective financial intermediation system and products to fill the existing gaps, including micro-credit organizations, leasing, factoring and fintech companies, e-money operators, specialized credit intermediaries that will be able to develop targeted solutions for these segments.

In order to assess the success of the efforts made and the timely achievement of the goals set for the reform of the banking sector, this Strategy includes the following targets::

- 1) increasing the share of assets of banks without a state share in the total assets of the banking system from the current 16 percent to 60 percent by 2025;
- 2) increasing the share of banks ' liabilities to the private sector in total liabilities from the current 28 percent to 70 percent by the end of 2025;
- 3) to attract at least three strategic foreign investors with appropriate experience, knowledge and reputation to the capital of at least three banks with a state share by 2025;
- 4) increase the share of non-bank credit institutions in total lending from the current 0.35 percent to 4 percent by 2025. The Ministry of Finance and the Central Bank of the Republic of Uzbekistan will carry out systematic monitoring of the implementation of the Strategy, overall coordination, and prompt consideration and resolution of problematic issues that hinder the reform of the banking system.

All these measures taken by our state in the near future will become the main lever of banking reforms in our country. This is how we can ensure transparency and efficiency in banking operations at the level of the state and directly in relations with foreign banks.

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