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THE EVOLVING LANDSCAPE OF UZBEKISTAN'S BANKING SYSTEM

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ABSTRACT

This article examines the banking system in Uzbekistan, exploring its historical development, current structure, and ongoing reforms. We delve into the dominance of state-owned banks, the rise of private and foreign participation, and the recent push towards digitalization. The article also analyzes the challenges faced by the Uzbek banking sector and its future prospects within the context of a growing economy.

Introduction: Uzbekistan, a nation strategically located in Central Asia, boasts a rich history and a rapidly developing economy. Its banking system, like many aspects of its economic landscape, is undergoing significant transformation. This article sheds light on the evolution of Uzbekistan's banking sector, its current composition, and the factors shaping its future.

A Legacy of State Control

The Uzbek banking system emerged from the Soviet era, characterized by a high degree of state control. Key features of this period included:

- **Dominant Role of State-Owned Banks:** Four large state-owned banks – National Bank of Uzbekistan (NBU), Asaka Bank, Uz sanoatqurilishbank, and Agrobank – held a dominant position, controlling a significant share of assets and credit disbursement. These banks primarily focused on serving state-owned enterprises and agricultural projects.

- **Limited Private Participation:** The private sector, including private and foreign banks, had a limited presence in the early years of Uzbekistan's independence. This restricted access to financial services for entrepreneurs and individual consumers.

- **Centralized Control:** The Central Bank of Uzbekistan (CBU) exercised significant control over interest rates, credit allocation, and foreign exchange operations. This limited the flexibility of banks and hindered market-driven competition.

Winds of Change: Reforms and Diversification

Since the late 2010s, the Uzbek government has undertaken significant reforms to modernize and diversify the banking sector. Here are some key initiatives:

• **Promotion of Private and Foreign Banks:** The government has actively encouraged the entry of private domestic and foreign banks. This has led to increased competition, a wider range of financial products, and improved customer service.

• **Financial Inclusion:** A focus on financial inclusion aims to expand access to banking services for underserved populations, particularly in rural areas. This includes initiatives like microfinance and mobile banking solutions.

• **Liberalization Measures:** The CBU has implemented measures to liberalize interest rates and foreign exchange operations, allowing for greater market forces to influence financial activity.

The Rise of Digital Banking

Technological advancements are transforming the Uzbek banking landscape, with digital banking emerging as a critical driver of change:

• **Growth of Online and Mobile Banking:** Banks are actively investing in online and mobile banking platforms, enabling customers to conduct transactions conveniently and securely. This caters to a growing tech-savvy population and promotes financial inclusion.

• **FinTech Innovation:** The FinTech sector in Uzbekistan is showing promise, with startups offering innovative financial solutions like mobile payments and alternative lending platforms. This fosters competition and creates new avenues for financial services.

• **Challenges and Opportunities:** While digitalization offers immense potential, challenges remain. These include ensuring cybersecurity, bridging the digital divide, and promoting financial literacy among the population.

Conclusion: Uzbekistan's banking system is at a crossroads. The legacy of state control is gradually giving way to a more diversified and market-oriented approach. The government's commitment to reforms, coupled with the rise of digital banking, promises a future where financial services are more accessible, efficient, and innovative. However, addressing existing challenges and ensuring inclusive growth will be crucial for the sector to reach its full potential and contribute significantly to Uzbekistan's economic development.

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