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General Overview of the State of the Banking System of the Republic of Uzbekistan

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Abstract

The banking system of the Republic of Uzbekistan is currently experiencing dynamic development and growth. It has a fairly high level of concentration, which is due to a small number of large banks that control most of the bank's assets and loan portfolio. At the same time, since 2017, active work has begun on reforming the banking system, aimed at increasing competition and reducing this concentration.

Keywords:

commercial banks, banking system, Republic of Uzbekistan, liquidity, interest rate, assets, loans.

Introduction. The banking system of the Republic of Uzbekistan is two-tier in structure and is represented by the Central Bank and commercial banks. The central bank, as in other countries, is the main bank of the country and is responsible for monetary policy, regulation of the banking system, control of payments, etc. Commercial banks are universal and, in turn, provide services to the population and businesses, issue loans, conduct transactions with cash, etc. According to the form of ownership in the Republic of Uzbekistan, commercial banks are divided into state-owned, joint-stock commercial, private, with the participation of foreign capital and subsidiaries. [1]

According to official data of the Central Bank of the Republic of Uzbekistan, there are currently 34 commercial banks operating in the country, including 12 state-owned banks, as well as banks with foreign capital, digital banks and others. The youngest of the banks today are Apex Bank and Hayot Bank. At the beginning of 2023, 32 commercial banks of the country had

832 branches throughout the country, as well as 1,543 banking service centers (service offices and mini-banks) and 2,974 round-the-clock self-service points (24/7) [2]. The total number of ATMs and information kiosks was 20,379, and 434,018 payment terminals. Transactions in the amount of 177,671 billion rubles were carried out through payment terminals.soums during the year. In total, more than 57,800 people worked in the banking system of Uzbekistan at the end of 2022. [3]

According to the Central Bank of Uzbekistan, 81 pawnshops and 85 microfinance organizations were registered in the country at the beginning of 2023. At the end of 2022, their total capital was 236.4 billion. soums (75.2 billion of them) .sum – authorized capital) and 579.7 billion.sum, respectively.

Methodology. This article examines the main performance indicators of the banking system and evaluates them. It uses the methods of vertical and horizontal economic analysis, the method of comparison, as well as the institutional method of research.

Based on the data published by the Central Bank of the Republic of Uzbekistan, the authors have compiled charts and graphs covering large time periods to improve the quality of assessment of the country's banking system performance.

In addition, the authors in this paper present tables with calculated coefficients obtained from public sources and study the dynamics of their change compared to the previous period.

Results and discussion. According to official data of the Central Bank of the Republic of Uzbekistan, the total volume of banking assets in February 2023 amounted to 558,494 billion soums, which is 28% higher than in 2022.

At the same time, the volume of lending to the economy increased by 21% and amounted to 391,109 billion soums. This indicates an increase in the credit activity of banks and their readiness to allocate financial resources to support the real sector of the economy. Also, the total capital of banks increased by 14% and amounted to 80,686 billion soums. Net profit at the beginning of 2023 amounted to 1,039 billion.sum, which is 33% more than a year ago.

In the fourth quarter of 2022, Uzbekistan's long-term foreign currency creditworthiness rating was rated by Fitch Ratings as "BB-" with a stable outlook. [4]

The average interest rate on loans in 2022 was 22.2% [5]

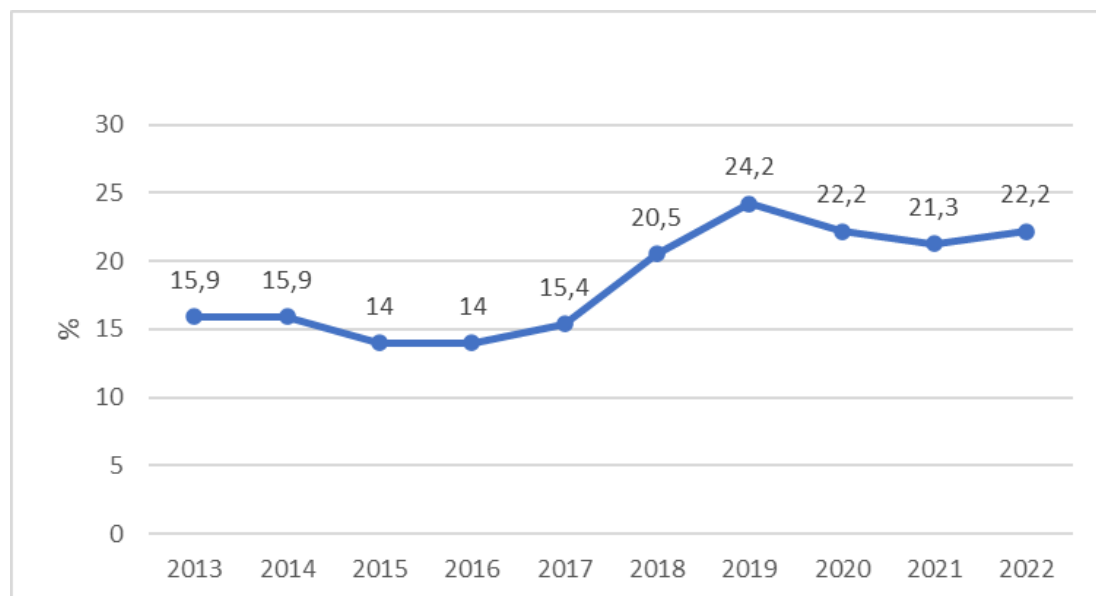


Fig.1 Change in the interest rate on loans in national currency in Uzbekistan for 10 years, excluding interest rates on soft loans and microloans

Note: The graph is compiled by the author based on the data of the Central Bank URL: <https://www.cbu.uz/ru/>

The average interest rate on deposits in national currency for legal entities in 2022 was 16.7%, for individuals – 20.6%, and in foreign currency 3.3% and 4%, respectively.

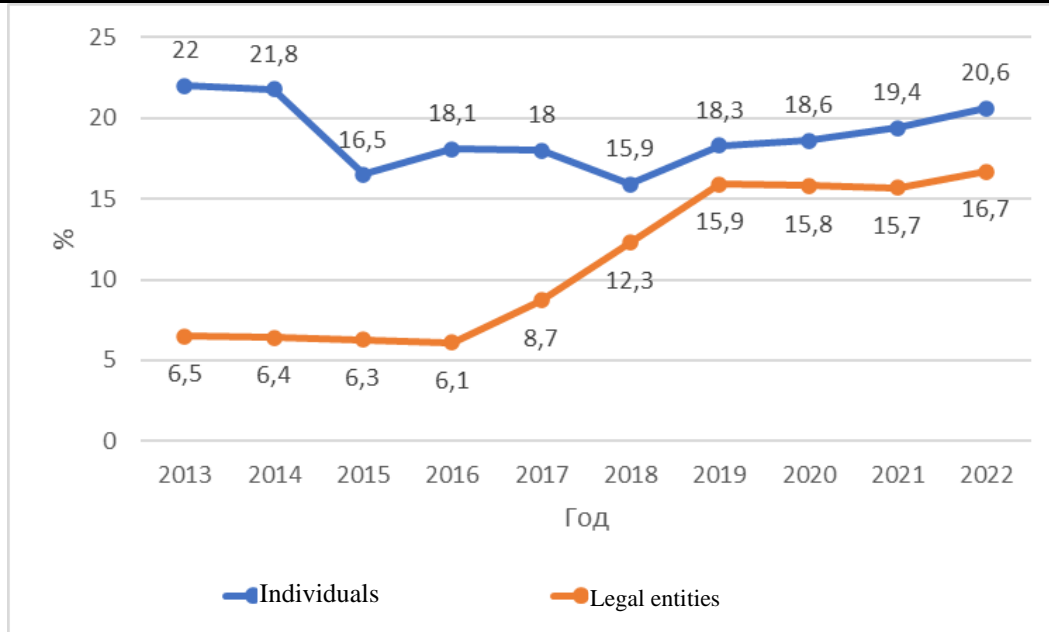


Fig.2 Change in the interest rate on deposits in national currency in Uzbekistan for 10 years

Note: The graph is compiled by the author based on the data of the Central Bank URL: <https://www.cbu.uz/ru/>

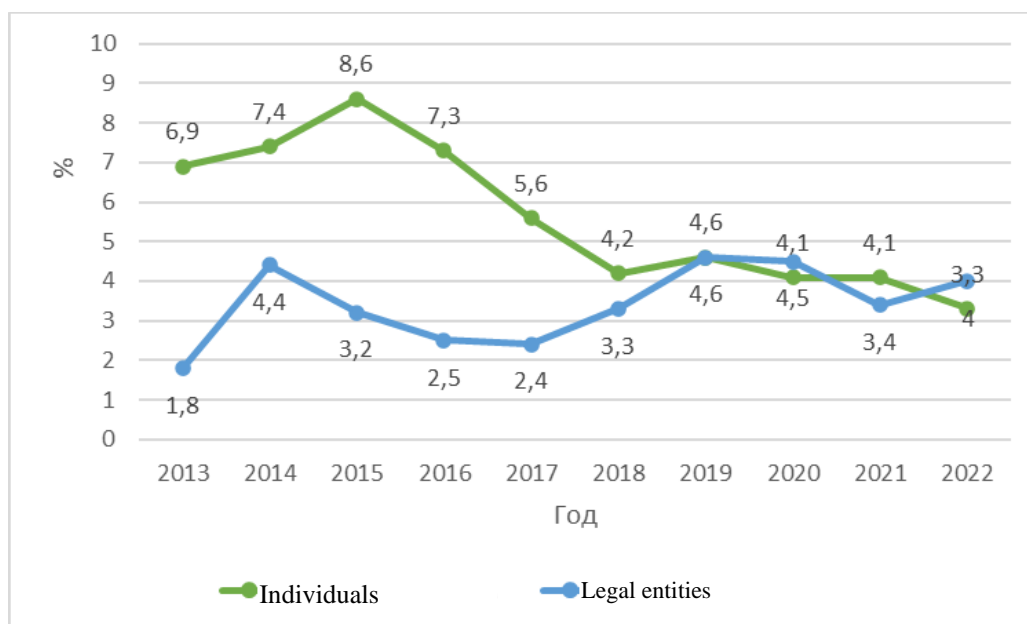


Fig.3 Change in the interest rate on deposits in foreign currency in Uzbekistan for 10 years

Note: The graph is compiled by the authors based on the data of the Central Bank URL: <https://www.cbu.uz/ru/>

Obviously, the difference in interest rates on deposits for individuals and legal entities has decreased in recent years. Thus, the interest rate on deposits for individuals in the national currency is on average only 4% higher than the rate offered to legal entities.

Moreover, in some years the interest rate on deposits in foreign currency for legal entities even exceeded the rate for individuals, for example, in 2020 and 2022. At the same time, it is the rates on deposits in foreign currency that began to decline noticeably in 2014-2015. And

since 2018, the rates in both national and foreign currencies began to grow.

It can be noted that the monetary base in the country has been gradually growing over the last 3 years, but at the same time it was subject to strong fluctuations under the influence of various factors. Thus, its minimum in April 2020 was about 37 billion soums, and its peak was more than 85 billion soums in September 2022.

It is interesting to note that after reaching its maximum in the period under review, in the 4th quarter of 2022 the monetary base indicator fell sharply to 70 billion soums. And despite reaching 80 billion soums at the beginning of 2023, the monetary base was almost 63 billion soums in two months. This figure is comparable with the value of the monetary aggregate in the summer of 2022.

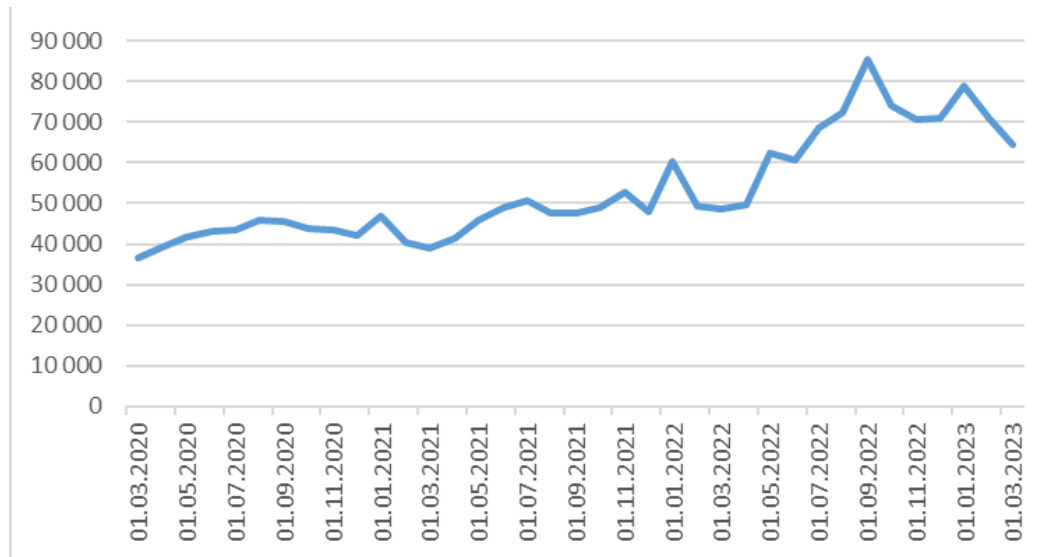


Fig.4 The volume of the monetary base in the Republic of Uzbekistan in 2020-2023

Note: It consists of cash outside the Central Bank; obligations to other deposit organizations (mandatory reserves); funds in correspondent accounts; obligations to other sectors.

The graph is compiled by the authors based on the data of the Central Bank URL: <https://www.cbu.uz/ru/>

The balance of the loan portfolio by type of lending to individuals is 102,234 billion.sum of 391,109 billion soums (about 26%), while the loan portfolio to legal entities, which occupies a large part in the banking system, at the

designated date consisted of 94.2% of generally accepted forms of lending to legal entities, 0.6% of leasing and factoring, 0.3% was an interbank loan, 3.1% of a micro-loan and 1.7% syndicated lending.

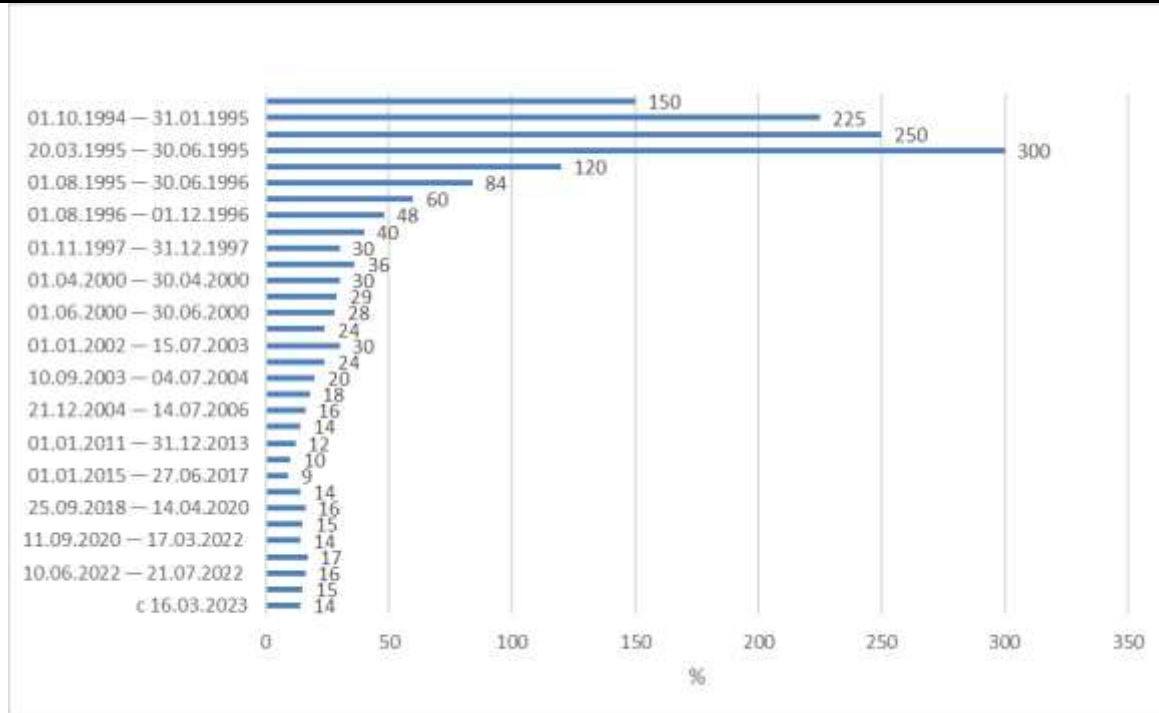


Fig. 5. The level of the main interest rate of the Central Bank of the Republic of Uzbekistan

Note: The graph is compiled by the authors based on the data of the Central Bank URL:

<https://www.cbu.uz/ru/>

The main interest rate is one of the main instruments of monetary policy in Uzbekistan. It has a significant impact on the activity of banks, especially on the volume of lending, and therefore on the development of the economy as a whole.

We can see that during the period of independence of Uzbekistan it reached the value of 300% during the period of formation of the economy and the financial and banking system of the state. Since 2018 it has been fluctuating between 14% and 17% inclusive.

At the same time, one of the important indicators of the effectiveness of the banking system is the quality of the loan portfolio, which is determined by the level of non-repayment of loans. According to the Central Bank of Uzbekistan, at the beginning of 2023, the share of problem loans in the total volume of loans was 3.6%, which is a fairly good indicator compared to the previous year, when it was 5.2%. Such a high value was associated with a number of activities carried out by the Central Bank during the COVID-19 pandemic to support the banking system and borrowers, including it provided deferrals on loan repayments and

preferential conditions for debt refinancing. Prior to that, at the end of 2020, the share of overdue loans was 1.9%. Obviously, at the moment, the country's banking system has not been able to reach the level observed before the crisis.

Despite positive trends in the banking system of Uzbekistan, there are still some problems and difficulties. For example, the low level of financial literacy of the population and entrepreneurs [6], limited access to financial services for some categories of the population, as well as the high share of problem loans in the portfolio of banks.

Besides, another challenge for the banking system of Uzbekistan is the increasing competition in the market, which actually means the development of the sector. At present, there are a large number of banks operating in the market and some of them face the problem of liquidity shortage. In this regard, it is necessary to develop mechanisms to provide liquidity to banks and attract foreign investment to the banking sector.

Table 1
Dynamics of banking sector liquidity [5]

Indicator	01.02.2022	01. 02. 2023	Change in absolute terms Highly
Liquid assets (billion soums)	65 676	99 829	34,153
Ratio of highly liquid assets to total assets,%	15.6%	17.9%	2.3%
Liquidity coverage ratio (min value of 100%)	169.5%	223.2%	53.7%
Net stable financing ratio (min value of 100%)	115.4%	116.2%	0.8%
Instant liquidity ratio (min value of 25%)	107.3%	121.1%	13.8%

Note: the data was taken from the official website of Central Bank of the Republic of Uzbekistan: <https://www.cbu.uz/ru/>

Here we can note the growth of all types of liquid assets, which confirms the strengthening of the stability of the banking system.

If we consider other performance indicators of the banking system of the Republic of Uzbekistan, the regulator provides the following data:

Table 2
Banking sector profitability indicators [5]

Indicators	01.02.2022	01. 02. 2023
Ratio of net income before income tax to total assets (ROA)	2.6	2.8
Ratio of net income to total equity on the balance sheet (ROE)	13.2	15.5
Ratio of net interest income to total assets	7.0	4.8
Ratio of net interest income on loans to total loan portfolio	9.4	6.9
Ratio of net interest income to total liabilities	8.4	5.6
Net interest margin to total assets	6.9	4.8

Note: the data was taken from the official website of Central Bank of the Republic of Uzbekistan: <https://www.cbu.uz/ru/>

In the table above we can see that the growth of profitability indicators of the banking system for 2022-2023 is observed only in the ROA and ROE ratios, while it is not very noticeable. The other coefficients have significantly decreased in their value.

Conclusion. The development of the banking system is an important element of the economic development of the Republic of Uzbekistan. However, in order to achieve maximum results in this area, it is necessary to carry out constant work to improve legislation, infrastructure and constantly develop personnel in this area. In addition, it is necessary to take into account the experience of other countries and trends in the development of the global banking market.

In general, the banking system of the Republic of Uzbekistan continues to develop and modernize, which contributes to economic growth and improving the welfare of the population. However, in order to achieve the full potential of the banking system, it is necessary to continue working to improve corporate governance and increase financial literacy of the population.

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