

ENSURING FINANCIAL STABILITY THROUGH THE DEVELOPMENT OF COMMERCIAL BANK TRANSFORMATION PROCESSES IN UZBEKISTAN

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Abstract. *This scientific thesis explores the necessity and theoretical foundations of the ongoing transformation processes in commercial banks operating in the Republic of Uzbekistan. In recent years, practical measures aimed at implementing modern corporate governance and transformation processes in major commercial banks have been analyzed. Scientific proposals have been developed to ensure financial stability through the advancement of transformation processes in commercial banks.*

Keywords: *commercial banks, financial stability, active operations, passive operations, national economy, investment, capital market, strategy, financial activity, financial risk.*

During the consistent reform of the financial sector, a number of measures have been implemented, resulting in the creation of the necessary legal framework to support advanced banking practices and enhance competitiveness within the sector. In particular, updated legislative acts of the Republic of Uzbekistan—such as the laws “On the Central Bank of the Republic of Uzbekistan,” “On Banks and Banking Activity,” “On Currency Regulation,” and “On Payments and Payment Systems”—have been adopted in accordance with international standards to establish an attractive legal environment for foreign investment in the financial sector.

At the same time, the current analysis of the banking sector reveals several systemic issues hindering its alignment with economic reforms and the needs of society. These include high levels of government intervention, insufficient quality of management and risk oversight in state-owned banks, and a low level of financial intermediation in the economy. Therefore, conducting scientific research on further advancing the transformation processes in commercial banks is a crucial task.

In recent years, wide-ranging reforms have been carried out in Uzbekistan to privatize and transform major commercial banks. Moreover, specific target indicators have been developed within the strategy for reforming the banking system of the Republic of Uzbekistan. These indicators include attracting strategic foreign investors with sufficient experience, knowledge, and reputation, and increasing the ratio of bank assets and deposits to GDP (Table 1).

As part of the banking system reform, legislative improvements are on going to support the transformation of state-owned banks and the implementation of modern corporate governance systems. For example, amendments have been made to the Law “On Banks and Banking Activity,” which envision a gradual increase in the minimum charter capital of banks from 100 billion UZS to 500 billion UZS by January 1, 2025.

Table 1.

Target indicators for implementing the strategy of reforming the banking system of the Republic of Uzbekistan for 2020–2025

№	Nomenclature of indicators	Current status	Purpose:		
			2021 year	2023 year	2025 year
1.	Private (non-governmental) banks assets in the banking sector assets of the general public	15 percent	17 - 20 percent	35 - 40 percent	60 percent
2.	Bank learning private sector oldidagi obligations rining obligations general xajmidagi ulushi	28 percent	30 - 40 percent	60 percent	70 percent
3.	Attracting strategic investors with experience, knowledge and experience	-	-	3	3
4.	Deposit Learning Banks Obligations Ratio	41 percent	41 - 45 percent	45 - 50 percent	50 - 60 percent
5.	No bank Credit Institutions Assets Rinning Credit Institutions Assets Total Capital	0.35 percent	0.5 - 0.7 percent	1 - 1.5 percent	4 percent
6.	Liabilities in foreign currency and liabilities in the general currency	58 percent	50 - 55 percent	45 - 50 percent	40 - 45 percent
7.	Ratio of bank assetlarining to FDI	53 percent	53-54 percent	54-55 percent	More than 55 percent
8.	Ratio of bank depositarining to FDI	18 percent	19 - 21 percent	22 - 24 percent	25 - 27 percent

The implementation of this regulation serves to increase the capitalization levels and resource bases of banks, further align prudential standards applied to banks with international benchmarks, and improve opportunities for attracting foreign investment into the banking sector. Moreover, in 2023, a number of presidential decrees were adopted to enhance the financial stability, investment attractiveness, and operational efficiency of state-owned enterprises, including commercial banks, to prepare them for privatization and attract strategic investors into the banking system. Among these,

specific measures were taken to strengthen the financial stability of JSCB "Uzsanoatqurilishbank" and accelerate its privatization.

The reduction of the state's share in "Ipoteka-bank" JSCMB, the increase in the capitalization level of commercial banks, and the entry of three new banks into the banking services market led to a decrease in the state's share in total banking sector assets from 78% in 2022 to 68%, and in total bank capital from 78% to 65%.

In 2023, Hungary's OTP Bank acquired a 75% stake in "Ipoteka-bank" JSCMB, which previously belonged to the Ministry of Economy and Finance of the Republic of Uzbekistan. During the reporting year, banks placed particular emphasis on cooperation with international and foreign financial institutions. With the involvement of foreign experts, work was carried out to develop various areas of banking activity, including corporate governance, risk management, retail services, IT systems, and operational cost optimization.

Notably, the National Bank of Uzbekistan organized an international "Investor Day" conference with the participation of leading foreign banks. "Mikrokreditbank" JSCB established partnerships with Germany's "Raiffeisen Bank" and "ODDO BHF" to carry out treasury operations. Additionally, the "Financial Management and Treasury Functions (CFO & Treasury)" division of "Mikrokreditbank" was transformed in accordance with international standards and practices, with the participation of the global auditing firm PricewaterhouseCoopers (PwC).

To enhance operational efficiency at JSC "Asakabank", the consulting company KPMG Tax and Advisory evaluated the effectiveness of the bank's head office and several branches, and based on the results, the organizational structure of the bank was revised.

In recent years, changes occurring in the global economy have necessitated the development of new approaches to the strategy for the development of commercial banking activities. In our opinion, this shift can be attributed to several long-term trends.

Firstly, the tightening of macroprudential supervisory requirements and the adoption of relatively strict monetary policies aimed at achieving inflation forecasts, slowing price growth, and promoting savings increase the importance of commercial banks in ensuring macroeconomic stability.

Secondly, legislative changes that support the entry of high-tech, payment, and other types of non-bank organizations into traditional areas of banking—such as lending, deposit-taking, and payments—have driven commercial banks to increase their focus on non-financial service segments.

Thirdly, efforts by central banks to introduce digital currencies and the varying success or failure in adopting financial innovations may create systemic risks for the operations of commercial banks.

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