

ROLE OF BANKS IN THE ECONOMY OF UZBEKISTAN

*Dilfuza Kodirova, Saidazim Mirkamilov,
Amina Mansurova, Mohina Karimshikova
Students of Amity University in Tashkent
Anita Banerjee*

*Ph.D and Associate Professor of Amity University of Tashkent and
Head of Dept. of Management & Social Sciences*

Abstract: The article takes a closer look at how the banking sector contributes to the development of Uzbekistan. It explores the impact and capabilities of the banking sector in the country. The importance of a deposit in the banking sector has been revealed. Article based on the secondary data analysis. The article concludes by making some important suggestions for making the banks more productive.

Keywords: banks, financial institutions, the tangible economy, the banking system, loans, interest rates, deposits, local currency, inflation, economic stability.

1. Introduction

In the today's world, banks play a pivotal part in the profitable development of countries and icing fiscal stability. The idea "Banks shaping Uzbekistan's progress" is getting decreasingly applicable, given the current trends in the country's profitable policy and the global challenges facing the banking system.

In ultramodern conditions, achieving profitable growth of both the country and its regions is insolvable without the active involvement of bank capital in the real sector of the frugality Banks play a vital role in turning people's savings and both artificial and marketable capital into investments within our country. Still, it's worth noting that these coffers suffer temporary metamorphoses, as banks rally short-term coffers by furnishing loans for a longer period

In world practice, considerable attention is paid to scientific research aimed at forming integrated structures and improving the methodological and practical foundations of their functioning. This happens by building a stronger connection between the banking system and the actual sectors of our economy. The research is all about figuring out how to boost stability and make our economy more competitive on the global stage.

Uzbekistan is really pushing for economic changes, and they're focusing on a few key areas. They want to make the banking system and industries more financially stable, boost industrial production, strengthen ties between banks and industries, bring in modern technologies through increased investments, and ensure the economy grows steadily.

To amp up progress in these reforms, they've come up with a Development Strategy for the New Uzbekistan for 2022-2026. The goal: To increase industrial production by 1.5 times. They plan to make it happen by sticking to an industrial policy that aims to keep the national economy solid and increase the industry's share in the overall domestic product.

2. Literature Review

Researchers like I. Schumpeter, J. Robinson, M. Pagano, and a bunch of others delved into how the banking system plays a role in making international collaborations profitable. They got into the nitty-gritty of how banks connect with the real economy and different countries. R. Goldsmith, R. McKinnon, E. Shaw, V. Zavody, and their colleagues explored both the practical and methodological aspects of how banks and different sectors of the economy in various countries come together in this integration process.

T. Bobokulov - Employees of the Ministry of Higher and Secondary Special Education of the Republic of Uzbekistan who have their own book called "Banking". The history of Uzbek banks has 33 years and this is far from the limit. The most important thing that was recognized was the dependence of the bank on the economy, and the economy on the bank. Why are loans growing, what is the level of GDP per capita and what can we do next.

The literature of the book by Oleg Tinkov and Murray Rothbard was also used to dive into the banking world.

3. Research methodology

In the course our study were actively used methods of grouping, comparative and economic analysis. For a deeper understanding and analysis of economic processes, economic and statistical methods were used.

4. History of the banking system of Uzbekistan

The banking system of Uzbekistan has a rather intriguing history. During the Soviet period, the democracy was dominated by state power, and the banking system was nearly linked to the central plan. After gaining independence in 1991, Uzbekistan began a process of profitable reforms, including the elimination of centralized economic structures.

In the early 1990s, the National Bank of the Republic of Uzbekistan was created established. At this time, the gradual privatization of banks began, and the first commercial banks appeared.

In 1994, the law "On Banks and Banking Conditioning" was espoused, which regulated the exertion of banks in the country.

Since the morning of the 2000s, Uzbekistan has laboriously continued to develop its banking system. New banks were created, services were expanded, and ultramodern technologies were introduced. still, it's worth noting that the banking system of Uzbekistan remained relatively conservative and told by the state.

Since the 2010s, there has been an active development of digital technologies in the banking sector of Uzbekistan, which contributes to improving the availability of financial services for the population.

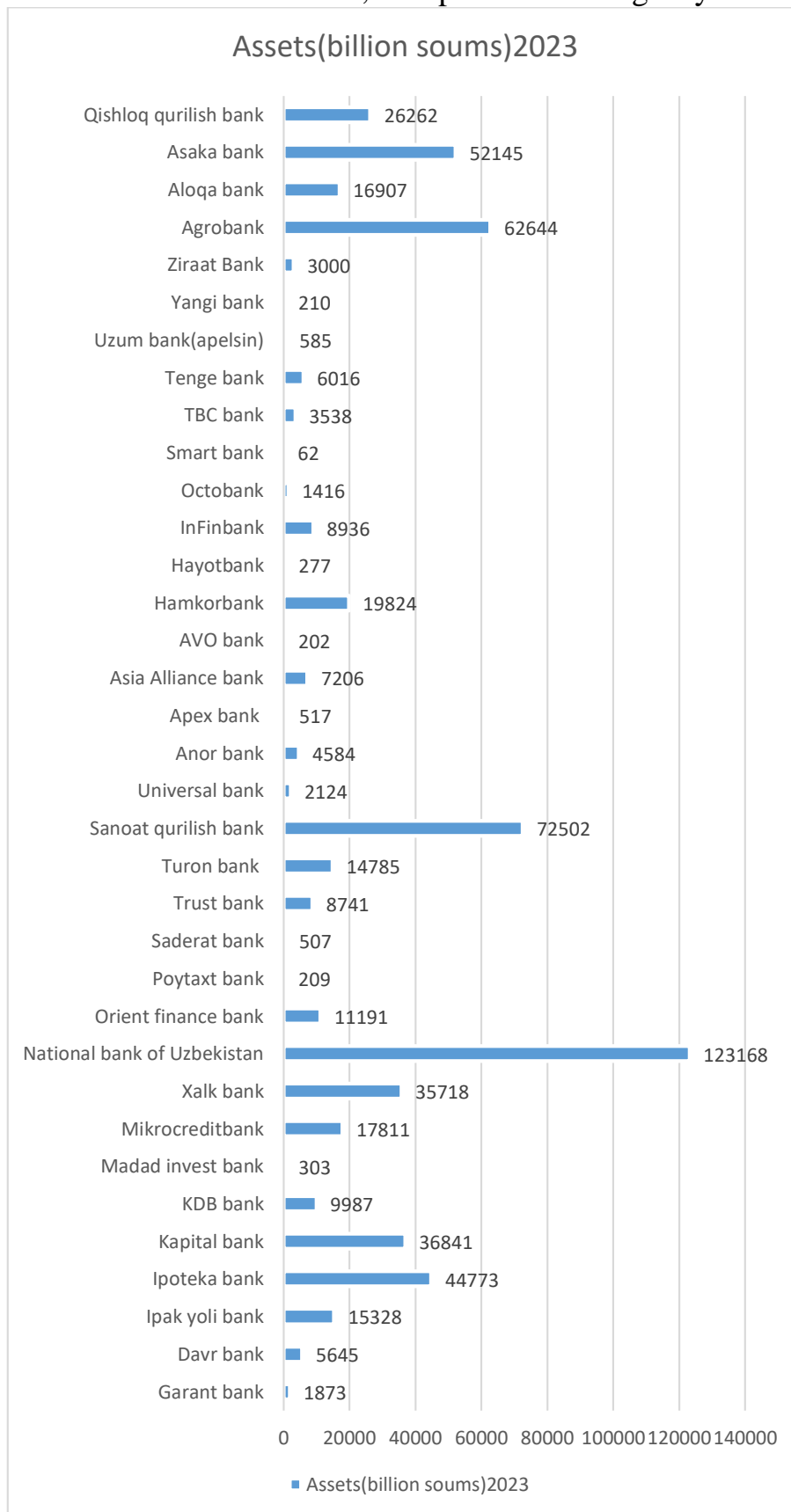
In general, the banking system of Uzbekistan continues to evolve, and the country strives for a modern and competitive financial sector.

5. Number of banks and their assets

So at the beginning of 2023, there are 35 operating banks in Uzbekistan, of which 12 have a state share, 6 banks with foreign capital and 2 foreign banks.

All banks have a license to provide banking services to individuals and legal entities. All of them issue loans, open accounts and savings accounts, carry out money transfers and a number of other banking operations.

In January 2022, the total means of Uzbekistan's banks increased to 434.7 trillion soums (\$39.6 billion), which represents an increase of 20 percent compared to the same period of the former time (362.3 trillion soums or \$ 33 billion). This information was distributed by Central Bank of Uzbekistan, as reported Trend agency.



*Sourced from bankchart.uz webpage

6. The idea of how bank capital plays a role in financing the economy

Banks directly contribute by offering various banking services, especially by providing credit services to meet the financial needs of customers. Now, there are two key ways in which bank capital gets into the mix: one is through traditional bank lending, and the other is through financial investments. These two forms have some substantial differences in terms of quality. Additionally, banks also indirectly contribute by giving clients opportunities for investment through investment services and ensuring that the turnover of clients' financial assets is optimized.

Looking at the big picture of the economy, bank capital is like a major player in fueling investments. Its impact goes beyond just boosting industrial production—it actually helps grow the overall output of the country's gross domestic product (GDP), playing a crucial role in the country's overall economic development. But how to flow bank capital into the real sector and fund businesses? That's where things get tricky, and we need to dig deep into what's affecting both banks and companies to figure it out.

In 2023, Uzbekistan had 35 banks up and running, and interestingly, 12 of them were state-owned. In 2022, the country's total economic output, known as GDP, hit 734,587.7 billion soums. When you look at the numbers, total bank assets make up about 60.8% of that GDP, with credit investments chipping in 44.2%, and deposits hanging at 21.2%. And the total capital of all these banks combined is around 9.7% of the GDP.

Indicators	2021 year	2022 year
GDP(annual, billion sum)	602 194	734 588
The ratio of GDP to assets	61	60,8
Credit investments(billion sum)	276 975	326 359
The ratio of credit investment to GDP	45,8	44,2
The ratio of deposits to GDP	19,3	21,2
Deposits(billion sum)	115 746,7	155 189,8
Capital to GDP	58 352	70 917,4

***sourced from stata.uz**

In 2022, as the banking sector's assets were on the rise, the money people had stashed in banks also got a serious boost.

In 2022 there was a rise of 36 percent, in the amount of deposits held in commercial banks compared to the previous year.

Making sure the bank stays financially strong and keeps growing involves a smart move: getting businesses to toss in their deposits. The Bank actively encourages businesses to deposit funds aiming to increase its resources, for granting loans to client-side and investing in assets. How much interest do you get on your deposits? Well, this is a kind of mixture, and it depends on factors such as the state of the economy, what the inflation rate looks like and the Central Bank's action plan

Checking out the interest rates on fixed-term bank deposits in our national currency at the start of the financial year tells us this: the average interest rates for businesses in the real sector took a noticeable dip in 2021, which is probably due to the general trend towards reducing interest rates in the market.

According to The Center for Economic Research and Reforms (CERR) as of January 1, 2021, the total volume of deposits in the banking system is 115.7trillion.

sum, of which 27.4trillion. Sum (24 percent) – deposits of individuals, 87.3 trillion. sum (76 percent) - deposits of legal entities. The largest share of lending falls on such sectors as industry (including manufacturing), agriculture, transport and communication.

7.The importance of inflation regulation by the central bank for the development of Uzbekistan

Rephrase in Uzbekistan, banks are pivotal in securing financial system's balance and managing inflation. Their impact can be outlined as follows:

Financial stability:

Loans: Banks offer loans to companies and individuals. This aids economic progression.

Liquidity: Banks supply the financial system with liquidity.

Control Inflation:

Money Matters: The Central Bank of Uzbekistan uses tools.

Financial Balance and Inflation: Banks follow financial stability rules. These rules help control inflation by limiting the growth of money.

Expanding the Banking System:

Dodge the Risks: Banks are picking up solid risk management methods. It aids in maintaining a secure financial system and fends off crises.

Smart Loans: Banks can push economic progress.

Fighting Corruption:

Bank transparency and moral conduct: Banks strictly following honesty and openness helps lessen dishonest actions, building a good space for a reliable financial system.

Everyone in the banking environment and regulators must work together, try hard to steady our financial system and manage money-value changes in Uzbekistan.

Uzbekistan's money-value changes history is a mix of slow periods and high prices. Keep in mind, the details below can be freshened up.

Independence Era (1991-2002):

When Uzbekistan split from the Soviet Union in the '90s, its economy struggled quite a bit. Inflation's Acceleration and Reforms (2003-2016):

In the mid-2000s, Uzbekistan made big changes to its economy. They legalized foreign trade. Doing this caused quicker inflation.

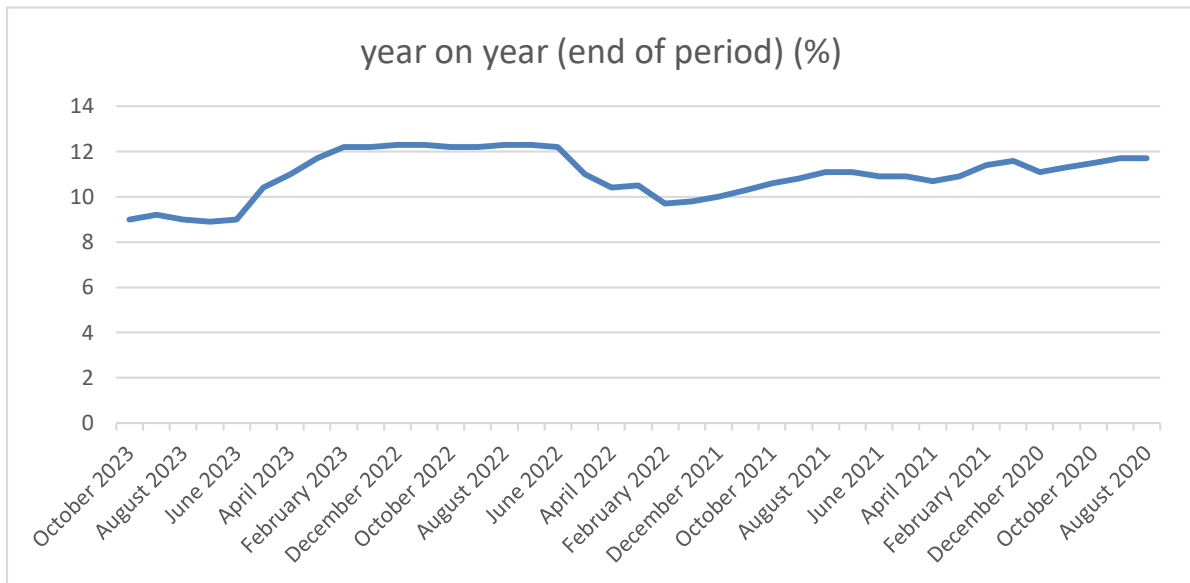
Quelling Inflation (post-2016):

The nation's financial focus shifted towards diversification and foreign investment. This impacted inflation.

COVID-19 and Years Following:

The COVID-19 crisis negatively influenced the world's economy. Uzbekistan didn't escape this impact. The stress from the pandemic could've raised inflation. But, government action aimed to support the economy and keep prices steady.

Examining Uzbekistan's inflation history, we see different periods. Recently,



efforts to balance prices and boost economic growth have increased. Thus, as shown on the chart, Uzbekistan's central bank is working to lessen inflation.

***Sourced from Central bank of Uzbekistan official webpage**

8. Conclusion

The macroeconomic policy pursued should be partly aimed at stimulating the savings process as one of the sources of economic growth, social development of the country, and improving the welfare of the population.

It is also important that, being a patriot of their country, by investing money in banks, people contribute to the financial stability of the country, the development of banking sector and attracting investment, since development of the banking sector and the stability of the economy attract foreign investors.

Do not forget that deposits provide an excellent opportunity to finance projects such as infrastructure construction, educational programs, etc.

So for the development of the country and the banking sector, it is necessary:

- conduct financial literacy programs to ensure a better understanding of the basis of banking services by potential customers,
- Improve transparency and strengthen consumer protection,
- develop innovative banking services,
- Develop the infrastructure of banks

It is worth noting that the banking system is making every effort to help the real sector of the economy grow. They do this using a variety of tools, such as introducing various lending and deposit options, developing small business assistance programs, and encouraging investment in key areas.

The involvement of financial and industrial groups is also a big step forward. This leads to a closer connection between banking sector and real sector. This makes it easier to invest and innovate.

Thus, the banking system of Uzbekistan is not just adapting to modern problems. They also help to create a good economic climate in the country.

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