Asian Journal of Multidisciplinary Research (AJMDR)
ISSN: 2395-1729

REFORMS BEING IMPLEMENTED IN UZBEKISTAN'S BANKING SECTOR AND THE PRIVATIZATION PROCESSES OF STATE-OWNED BANKS

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Abstract

This article examines the reforms implemented in Uzbekistan's banking sector in recent years, the reduction of the state's share, the enhancement of banks' investment attractiveness, and their adaptation to the requirements of a market economy. The article analyzes the complexity of the bank privatization process, existing problems, the share of preferential loans in state-owned banks, capital- and competition-related constraints, and the need to take international experience into account. In addition, the article considers the main goals and objectives set out in the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020–2025, as well as certain important aspects of banking sector privatization based on the example of Hungary.

Keywords: banking system, state-owned banks, privatization, investment attractiveness, banking reforms, transformation, corporate governance, financial stability, strategic investor.

In recent years, reforms implemented in Uzbekistan's banking sector have been aimed at reducing the state's share in banks and, in this way, increasing their investment attractiveness. When analyzing the reforms being carried out in this direction, it should be emphasized that the sector has not only achieved certain successes, but also faces specific complex issues that remain to be resolved.

The privatization of banks is a rather complex process and includes a number of difficult procedures that must be carried out before its implementation. Therefore, when implementing transformational changes in this sector, it is necessary to study the most delicate aspects of the issue in detail, propose the most appropriate solutions, and, during their practical implementation, take into account the experience of developed countries in order to lay the foundation for the successful future operation of commercial banks.

For this reason, the reform of the banking system in 2020–2025 envisaged adapting banks' activities as much as possible to the market economy, reducing their dependence on state resources, increasing banking services both qualitatively and quantitatively, and, as a result, more fully satisfying the population's need for financial services.

If we turn to the figures, more than 30 commercial banks currently operate in the republic, of which 9 are state-owned banks. These are: Sanoatqurilishbank, National Bank, Mikrokreditbank, Xalq Bank, Business Development Bank, Agrobank, Asakabank, Turonbank, and Aloqabank.

Despite a number of laws and subordinate regulatory acts adopted in this regard in recent years, the privatization of state-owned banks is not planned for the current year, 2026. There are several reasons for this. First of all, at present, this process is being delayed by a number of issues, such as the large volume of preferential loans remaining from previous years in most state-owned banks, strong competition among banks, staff shortages, and the fact that banks are still not sufficiently adaptable to market economy conditions.

In addition, in the current complex economic and political situation, investors are paying increasingly less attention to long-term projects and are trying to avoid risks. However, it is also worth noting that a number of laws have been adopted in this regard, on the basis of which important work is being carried out to reform the banking system, improve the quality of services, automate services, and improve banks' indicators in international ratings and indices.

As established in the Decree of the President of the Republic of Uzbekistan "On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020–2025," it is envisaged to increase the efficiency of the banking system by creating equal competitive conditions in the financial market, implementing lending exclusively on market terms, reducing banks' dependence on state resources, modernizing banking services, creating effective banking infrastructure and automating bank operations, as well as gradually abolishing functions that are not characteristic of banking activities.

In addition, ensuring the financial stability of the banking system through improving the quality of credit portfolio and risk management, maintaining moderate growth in lending volumes, conducting balanced macroeconomic policy, improving corporate governance and attracting managers with international practical experience, as well as introducing technological solutions for assessing financial risks, has been identified as one of the important tasks.

Furthermore, special attention has been paid to the comprehensive transformation of commercial banks with state participation, the introduction of modern banking standards, information technologies, and software products, the sale of state-owned share packages in banks on a competitive basis to investors with the necessary experience and knowledge, as well as reducing the state's share in the banking sector through the simultaneous reform of commercial banks and enterprises with state participation.

It is envisaged to increase the accessibility and quality of financial services by strengthening state participation and implementing targeted measures in underserved and vulnerable segments, widely introducing remote services for the population and small businesses, developing a network of low-cost service points, and creating favorable conditions for the formation and development of non-bank credit organizations as a complementary part of the republic's unified financial system.

This strategy sets the objective of increasing the share of assets of banks without state participation in the total volume of banking system assets from the current 15 percent to 60 percent by 2025. It also envisages increasing the share of banks' liabilities to the private sector in the total volume of bank liabilities from the current 28 percent to 70 percent by the end of 2025, attracting at least three strategic foreign investors with the necessary experience, knowledge, and reputation to the capital of at least three banks with state participation by 2025, and increasing the share of non-bank credit organizations in the total volume of lending from the current 0.35 percent to 4 percent by 2025.

The Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020–2025 provides for the implementation of the following measures to achieve the strategic objectives of increasing the financial stability of the banking sector:

1. ensuring moderate growth rates of lending and improving the quality of the credit portfolio;
2. improving banking sector supervision and introducing a modern risk management system in banks;
3. ensuring the coordinated reform of the banking system and enterprises with state participation in the real sector of the economy, active participation of banks on a commercial basis in the transformation of the activities of state enterprises and organizations, and ensuring the harmonious progress of changes in the real sector and the financial sector;
4. increasing the minimum capital requirements for banks, including by taking into account the accession of the Republic of Uzbekistan to international economic organizations and the integration of the republic's banking system into the international financial system;
5. consistently developing the deposit protection system based on best international practice.

Within the framework of the above-mentioned measures, the following will contribute to strengthening the financial stability of banks:

the implementation of comprehensive measures to increase the efficiency of managing enterprises with state participation, including the development, within their framework, of the most appropriate methods for managing these enterprises, increasing their financial stability, and privatizing them;

the independent assessment of the quality of assets of banks with state participation and the adoption of measures to improve the quality of their credit portfolios, including through practical assistance with non-performing loans;

the development of credit bureau activities, including through the integration of their databases with the information systems of the housing and utilities complex, the tax system, and the pension system;

emphasis has been placed on the international integration of the financial sector based on the principles of introducing advanced international standards in banking operations, including corporate governance and customer service.

All these measures play an important role in improving the banking system, ensuring its stability in a market environment, and ensuring the successful implementation of privatization processes.

At this point, it is also important to study the experience of countries that have significant expertise and potential in this regard. Hungary can serve as a clear example, as it, like us, lived under a communist system and achieved considerable success not only in transferring its banking system, but also its entire economy, to market relations.

Initially, in 1987, banks moved to a two-tier system: the central bank and three commercial banks. By 1994, the government had signed a law allowing the privatization of banks, in particular their sale to foreign shareholders, and within a short period, 80 percent of the total shares of banks were purchased by major banks from Europe and the United States.

The largest bank, OTP Bank, placed its shares on the stock exchange through an IPO and was privatized in this way. In addition, the national legislative framework was revised and amended in accordance with international requirements. Compatibility with European Union legislation was also ensured, which helped accelerate integration processes in the banking system with developed Western European countries. As a result, banks began to contribute to economic growth and welfare.

Conclusion

In conclusion, the reform of Uzbekistan’s banking system and the processes of reducing the state’s share are of great importance in adapting the country’s financial sector to the requirements of a market economy. The privatization of banks is not simply a process of changing the form of ownership, but a complex transformational process related to improving their management system, capital quality, level of service, risk management culture, and investment attractiveness.

The delay in the privatization of state-owned banks at the current stage does not mean that reforms in this direction have been abandoned. On the contrary, it demonstrates the need to thoroughly prepare these banks, strengthen their financial stability, improve their corporate governance, and make them attractive to strategic investors. In this regard, reducing the share of preferential loans in state-owned banks, strengthening the competitive environment, digitalizing services, and introducing a management system that complies with international standards remain important tasks.

The experience of Hungary shows that successful privatization of the banking system requires a strong legislative framework, the participation of foreign strategic investors, adaptation to international financial standards, and effective corporate governance. Taking these experiences into account, Uzbekistan should continue gradual, well-considered reforms in the banking sector that correspond to the interests of the national economy. Only then can commercial banks become an important factor in economic growth, attracting investment, and more fully satisfying the population's need for financial services.

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