

FINANCIAL SYSTEM OF UZBEKISTAN AND FURTHER WAYS OF IMPROVING

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Abstract: it is true that financial system of any country is an effective tool for economic development and growth. This article analyses the current state of financial system of Uzbekistan and proposals have been made to improve this system of national economy.

Key words: financial system, bank, economic growth, finance, capital

Introduction: It should be stated that in our country, with clear understanding of the importance of the financial system in the development of the national economy, great attention is being paid to this sector. In fact, the decree No. PD-2847 which was signed on March 18, 2017 “On measures to further improvement the activities of financial institutions”[1] can be proof to the above mentioned statement. Moreover, the operating principles of banks also being radically reformed as banks are key links in the financial system of Uzbekistan. Exactly, on July 06,2020,[1] President Shavkat Mirziyoev held a meeting on the implementation of the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025, aimed at increasing the share of the private sector in bank assets from 15% to 60% and accelerating the transformation of commercial banks

Materials

Financial system is defined as a set of institutions, such as banks, insurance companies, and stock exchanges that permit the exchange of funds in the book of Edwin H.Neave [2] which was named Modern financial systems: theory and applications.

According to Dr. G Suresh Babu [3] financial system helps in creation of wealth by linking the savings with investments. It also facilitates the flow of funds from the households to business firms to aid in wealth creation and development of both the parties.

Uzbek scientists Malikov T.S. and Jalilov Sh.K. noted [4]that the set of financial transactions, assets, risk markets and other institutions which are used in exchange called financial system.

Muzaffarjon Ahunov [5] stressed in his working paper that Uzbekistan’s financial system is bank base, with commercial banks playing a key role. The other types of financial intermediaries that operate in this market are non-deposit-taking microfinance institution.

Methods

In this chapter mathematical modeling, economic statistics, questionnaire methods were used to determine the position of the financial system in the economy of Uzbekistan. Statistics were made based on the official sites of statistics of Uzbekistan.

Results

Conducted researches revealed that the importance of financial corporations in the country is improving year by year .As financial system of Uzbekistan is bank-based the usage of some types of banking can be seen in table 1.

Table1: Bank card, internet, and Mobile banking use in Uzbekistan.(source: central bank of Uzbekistan)

	2011	2015	2016	2017	Ratio of 2017/2011
Bank card issued(,ooo)	7,909	15,215	16,316	19,523	2.5
Transaction volume through bank cards(in billion UZS)	10,192.4	31,324	53,050		5.2
Payment terminals	85,741	169,581	183,060	208,536	2.4
Information points	491	2,012	2,354	4,954	10.1
Number of depositors	1,159,890	1,432,849	1,515,004	1,638,673	1.4
Number of deposit accounts	3,926,356	5,030,704	5,364,838	5,809,172	1.59
Remote banking users/number	24,545	534,800	1,061,022	2,042,111	83.2
Remote banking users/ Percentage of depositors	0,6	10,6	19,8	35,2	
Internet banking and bank client network users	14,241	62,227	81,492	135,629	9.5
Num. Mobile and SMS banking users	10,304	472,573	979,530	1,906,482	185.0

Table 1 shows great improvements in the usage of banking services in Uzbekistan in the given 6 years . In fact, the ratio of remote and mobile, SMS banking users increased dramatically in 2017 year compared to 2011 clearly, 83.2 and 185.0, respectively. . It should be noted as information that digital system of Uzbekistan has been changed in last 5 years and it helped to increase the number of remote banking users. Moreover, the number of internet banking and bank client network users also showed an increase during the given period exactly, if the number of user indicated 14,241 in the beginning year(2011) , in the end of the period this demonstrator was 135,629.

Studies showed [6] that twenty-nine commercial banks operate in Uzbekistan, including five state-owned banks, 13 partly state-owned joint-stock banks, five banks with foreign capital, and six private banks. In April 2019, the value of total bank assets was equivalent to \$27.6 billion. Included in this amount are the assets of the three largest state owned banks, which together hold \$12 billion. Financial sector has grown rapidly. Total lending by the country’s commercial banks rose by about 103 percent in 2017 and by 51 percent in 2018. It can be said that the banking sector appears to be well capitalized, with a capital adequacy ratio of 15.4 percent in the first quarter of 2019(figure 1).

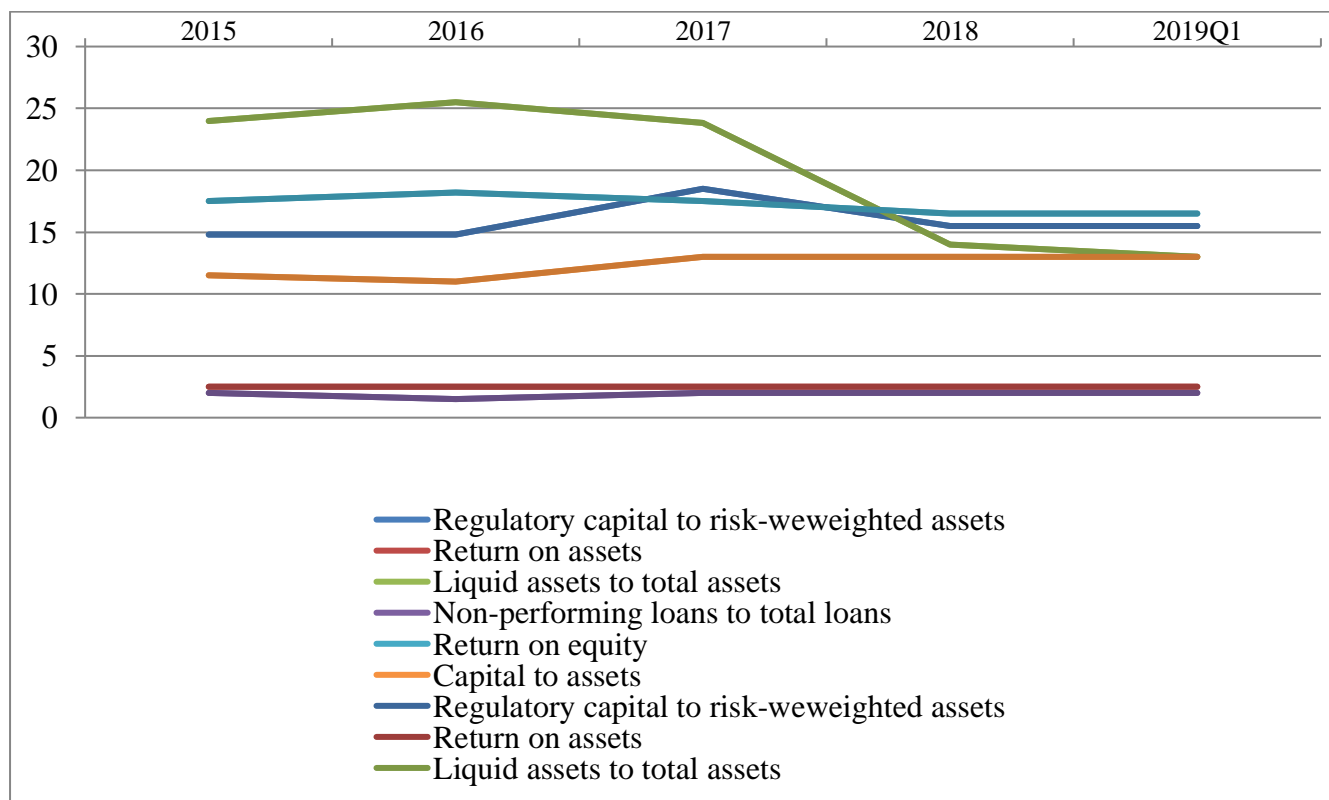


Figure 1.selected Financial indicators[6]

It is clear from the figure that the percentages of return on assets and non-performing loans to total loans remained almost the same during the given period. Additionally, The indicators of capital to assets and regulatory capital to risk-weighted assets showed slight increase exactly, the percentages of them were above 10% and just above 15% , respectively at the end of the period. To add, the demonstrator of liquid assets to total assets fluctuated during the duration of exact years. While conducting a research by using the method of questionnaire for revealing why most of the population do not use formal services of financial institutions following reasons have been identified:

The most common reason is private domestic and foreign banks charge relatively high interest rates. Until 2018, the central bank of Uzbekistan set the commission fees on the use of bank cards centrally and in 2018, the CBU started to publish recommended commission fees for the use of bank cards.

Lack of the confidence of people to the financial institutions is one of the common reasons for people not to using formal services of banks. In fact the most of respondents reported that they do not save with banks because they cannot withdraw cash when needed.

Table 2 shows the percentage of the adult population with an account at a financial institution between 2011 and 2017. It is clear from the table that the percentages of adults of rural areas and out of the labor force which have an account at a financial institutions increased during the given period. In numbers, they increased to 11.8% and 14.7%, respectively.

Have an account	2011	2014	2017	2017 compared to 2011
All adults	22.5	40.7	37.1	14.6
Adults out of the labor force	21.3	39.3	36.0	14.7
Adults belonging to the poorest 40%	19.3	35.3	29.7	10.4
Adults living in the rural areas	22.6	42.7	34.4	11.8

Note: Adults age 15+

Table was created by author on the basis of official data of Findex

Following table shows most common reasons why people do not use formal financial services and reasons for having no bank account in 2014 and 2017

	2014	2017
Insufficient money to use financial institution	0.4	35.9
Lack of the necessary document	21	17.6
Someone else in the family already has an account	30	16.6
Financial institutions are too far away	12	11.8
Financial services are too expensive	44	11.2
Lack of trust in financial institutions	10	9.8
Religious reasons	30	20

Source:Findex database

It can be seen from the table 3 that the highest cost of financial service was reported as the main reason for not using the service of financial institutions in Uzbekistan in 2014 . However, this indicator decreased by almost four times in 2017 year. Additionally, as already mentioned above lack of trust in financial institutions is one of the main reasons for people not to use services of financial institutions and the indicator of it decreased slightly in 2017 clearly, from 10% to 9.8%.

The research also provided a comprehensive analysis of the credit sector of financial institutions. It has been revealed that demand for credit has always been high in the economy of Uzbekistan, as national economy is growing and credit is an alternative and the only source for corporations to thrive their economy and investment for business. According to statistical data of CBU last year average interest rates on loans were around 20-23 percent and it has been reporting by CBU that this year average interest rates on loans will be around 21 percent and it will not be changed till the end of the year. Although, there were some reasons for not using bank loans or credit lines several years ago, those problems have been solving and facilities have been creating year by year. For instance, complex application process has been simplified and digitalizing of Government created facilities for people. [7] Researches revealed that 5 stages of digital transformation in the banking sector of Uzbekistan have been implanted and these stages can be seen in the following figure:

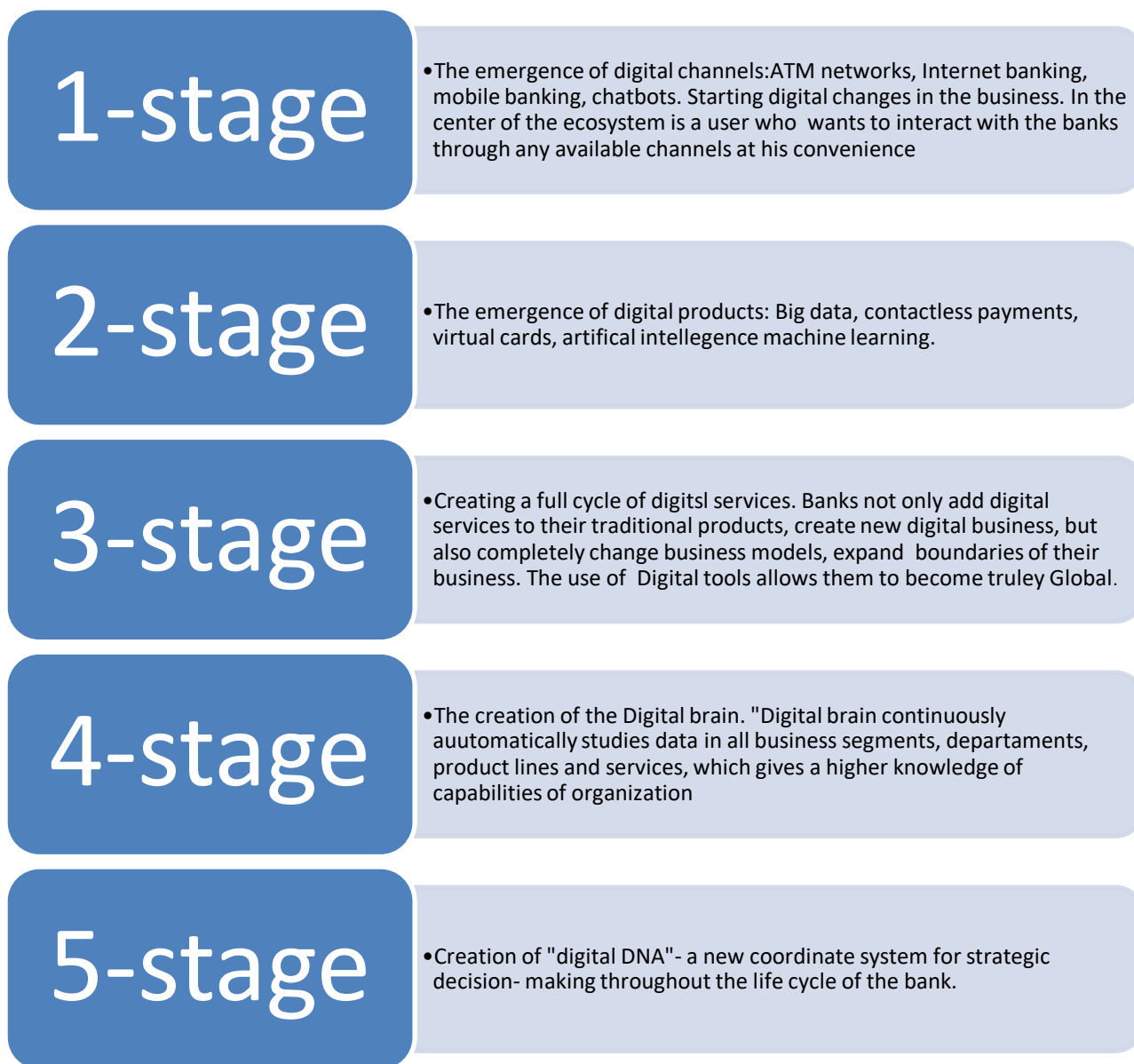


Figure2. Stages of digital transformation in the banking sector

Additionally, laws which have been adopted to facilitate financial system of Uzbekistan have been creating new opportunities for the people and helping to increase the number of users of financial system. Main laws and events on digitalization of banking and financial system are followings [8]:

December 2003 Law on the use of informatization

December 2003 law on the electronic signature

April 2004 Law on the electronic documents

May2004 Law on electronic commerce

December2005 Law on electronic payments

April2006 law on the Protection of information in an automated Banking system of Uzbekistan

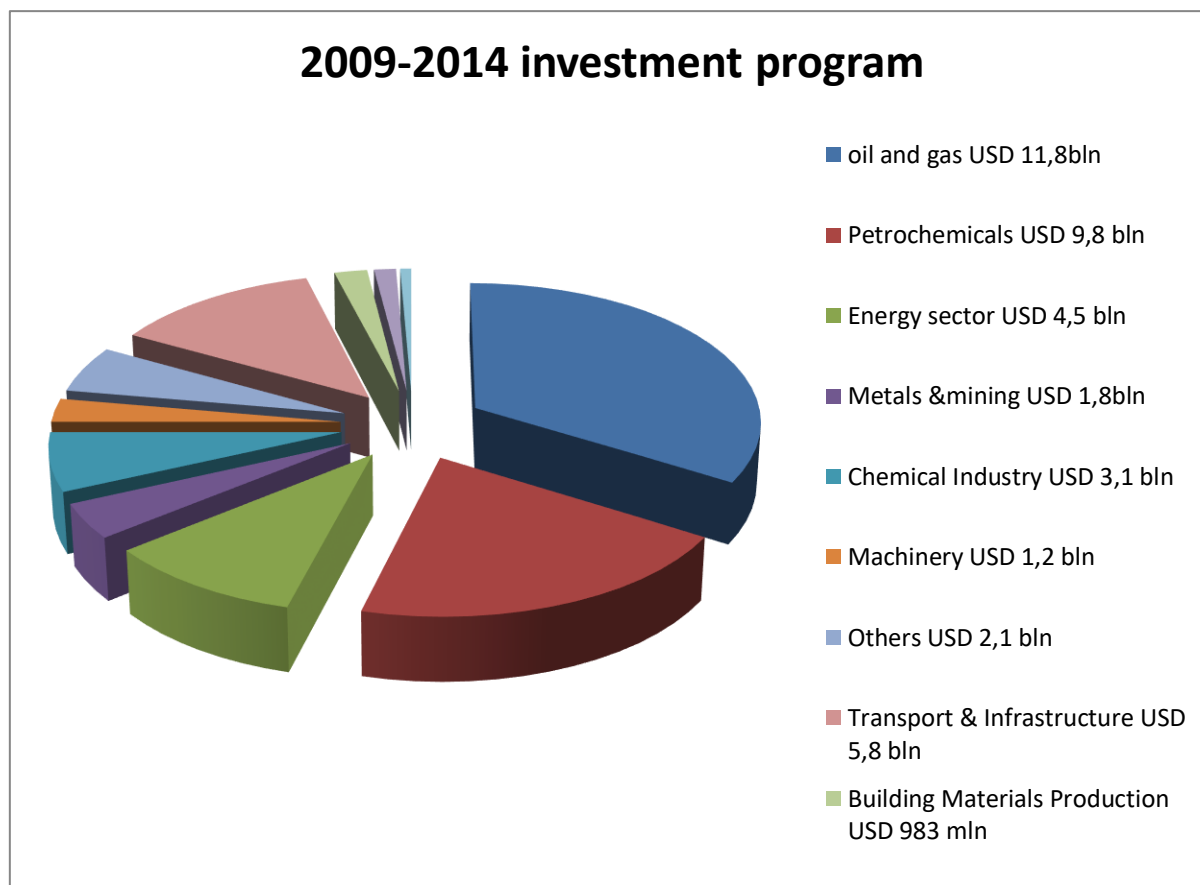
September 2013 First mobile banking system launched jointly with the Common Republican Processing Centre at the e-Payment company Click

March2018 Decree on additional measures to increase the availability of banking service

May2018 Decree on measures to accelerate the development of e-commerce

April2020 Decree on further improvement digital economy and electron government

Figure3. 2009-2014 investment program



In fact, figure 3 indicates amount of investment programs between 2009 and 2014. It should be noted that there were over 320 projects with the total cost of USD 42,5 bln and over USD 2,5 bln financed by UFRD [9]. Many conducted researches have been revealing that investment processes in the banks of Uzbekistan have been increasing over the past years. Clearly, the amount of investments reached to USD 23.1 bln in 2019-year alone[9].

Discussion

It should be said that financial system of Uzbekistan is bank-based and banks have important role in the financial activities of this country. While analyzing the financial system of Uzbekistan it is revealed that the numbers of commercial banks are limited in the country but in recent years many reformations have been conducting in the country.

Conclusion

Summing up it should be noted that financial system has a decisive influence on the formation of the rates of the economic growth. It is clear from the above given information that the importance and role of financial system of Uzbekistan have been increasing year by year. The problems have been analyzed in detail, and the following suggestions have been made for further improvement of the financial system of Uzbekistan:

- Introducing new strategy which radically reforms the banking system
- Encouraging competition among banks in the country
- Increasing the number of private banks and supporting underdeveloped banks in rural areas
- Enacting laws that increase public confidence in the financial system and ensuring their implementation in practice
- Further improvement of remote financial services

Literature

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5. Source: world bank staff calculation based on official data

6. According to the statistics of Findex

7. Compiled by the author based on the official site lex.uz

8. Compiled by the author based on the statistics of official site stat.uz