



CURRENT PROCESS AND ADVANTAGES OF PRIVATIZING AND TRANSFORMING STATE-OWNED BANKS IN UZBEKISTAN

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Article history:	Abstract:
Received: 11 th February 2025 Accepted: 8 th March 2025	The scientific article considers the advantages of privatization and transformation in the banking system, the comparison of the activity and profitability of state banks and private commercial banks in competitive market conditions, as well as the activities carried out in this regard in our country and the banking system in neighboring countries. In our country, presidential decrees on the reform of the banking system have been adopted, and great opportunities are being created for the development process.
Keywords: bank, privatization, transformation, corporate management, assets, credit	

INTRODUCTION

The banking system is one of the major segments of a nation's economy. Reforming the banking system is a crucial task. In Uzbekistan, efforts to transform banking activities and business processes aim to enhance competition, improve financial intermediation, transform state banks, and increase private capital participation. The Presidential Decree PF-5992, "On the Development of the Banking System of the Republic of Uzbekistan for 2020-2025," lays out a strategic roadmap for these improvements, focusing on transformation, legislative base improvement, privatization, and corporate governance development.[1] This decree marks the beginning of a new era, creating opportunities for privatization and the attraction of foreign capital.

LITERATURE REVIEW

Reforming and liberalizing the banking system, which is a crucial link in market relations, is essential for economic development. Establishing local banks that meet international standards and improving their activities are urgent tasks today. Societies with well-developed banking systems and efficient banks can thrive(Abdullaeva and Azizov. Banking. 2019).[2]

Aligning the banking system with market economy requirements is closely linked to overall economic reform. The extensive privatization program conducted in the Republic should enhance economic activity and increase the demand for banking credits

and services. Many commercial banks in Uzbekistan, which are formally registered as specialized banks (investment, mortgage, exchange), often have to operate as universal banks due to the current economic environment. Banks should not only operate within the narrow segment traditionally understood as banking but also within the broader field of financial services(Toymuhamedov. Banking. 2005).[3]

RESEARCH METHODOLOGY

This study employed general scientific analytical methods as well as specific statistical methods, including surveys, statistical grouping, sampling, economic indices, dynamic series, and other approaches.

ANALYSIS AND RESULTS

In developed economies, a significant proportion of banks operate as private entities. According to the Central Bank of the Republic of Uzbekistan, there are currently 36 commercial banks in the country as of 2024. Among these, 10 are state-owned, while the remaining 26 are privately owned.[4] For comparison, Kazakhstan has a total of 21 banks in operation, with only 2 being completely state-owned, while the rest consist of banks that involve foreign capital and branch offices.[5]

An analysis of the loans provided by banks, along with the promptness of their repayment, serves as a means to evaluate the effectiveness of their credit policies.

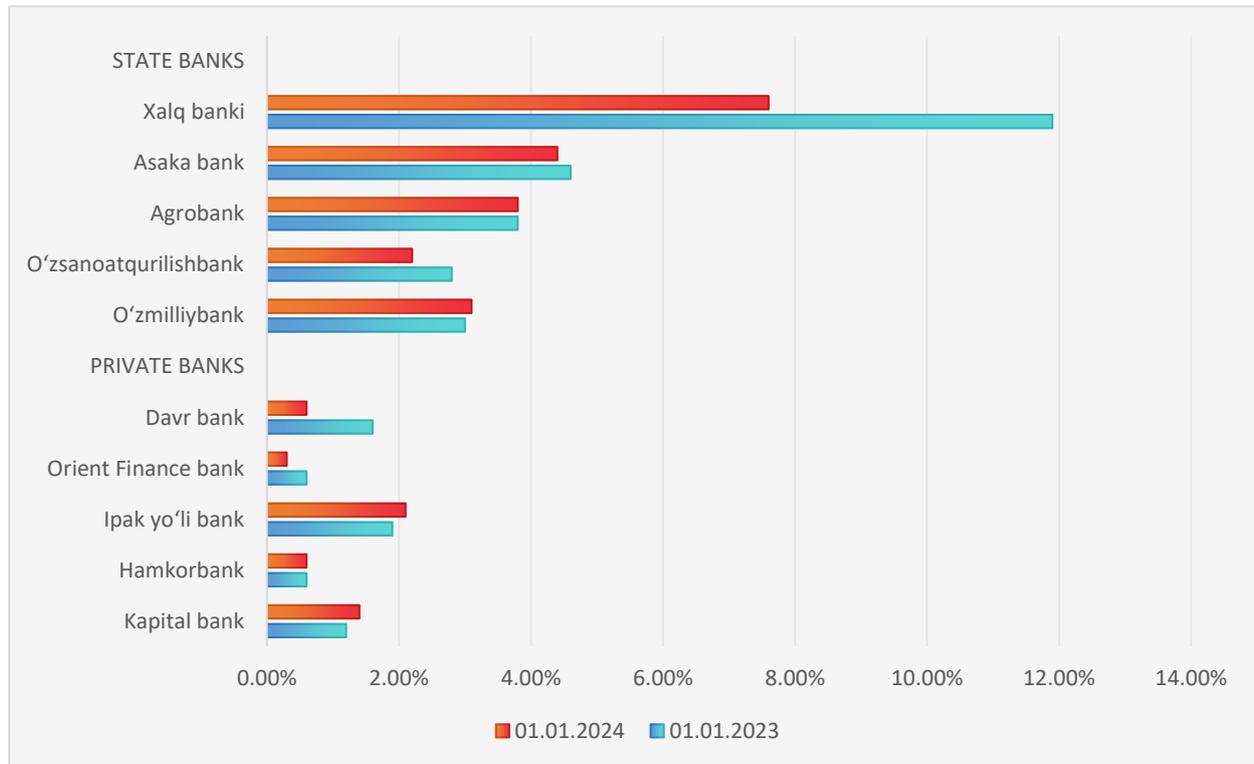


Figure 1: Ratio of Problem Loans to Total Credit Portfolio in Commercial Banks

According to the information illustrated in the diagram, it can be inferred that banks experiencing considerable state involvement are associated with a greater percentage of non-performing loans. In contrast, those banks that engage private capital show a diminished level of problem loans. The presence of these problematic loans has a detrimental effect on the overall functioning of the banks.

In a market economy, the principal goal of any commercial organization is to achieve profit maximization and growth through the enhancement of revenue. Similarly, banks aim to increase their asset holdings while striving for high profitability. A vital indicator of a bank's stability is the assessment of its asset value alongside its profit levels.

Table 1:
Bank Assets and Net Profit Indicators for the First Half of 2024 (in billion UZS)

Bank name	Assets (bn UZS)	Profit (bn UZS)	Profit to Assets Ratio (%)
State banks			
O'zmilliybank	135 799	944.9	0.70%
O'zsanoatqurilishbank	80 108	768.4	0.95%
Agrobank	75 399	17.7	0.02%
Asaka bank	56 474	140.3	0.25%



Xalq banki	43 899	135.6	0.31%
Private banks			
Kapital bank	44 880	712.3	1.59%
Hamkorbank	26 245	668.1	2.55%
Ipak yo'li bank	21 014	445.9	2.12%
Orient Finance bank	15 018	418.7	2.79%
Davr bank	5 310	188.8	3.56%

Table 1 highlights the assets and net profits of the five largest state-owned and private commercial banks. According to semi-annual reports, the highest net profit was recorded by "O'zmilliybank" JSC at 944.9 billion UZS, also making it the largest bank in terms of assets, valued at 135,799 billion UZS. The profit-to-assets ratio for "O'zmilliybank" JSC stands at 0.7%. The second highest profit was achieved by O'zsanoatqurilishbank with 768.4 billion UZS, which corresponds to a profit-to-assets ratio of 0.92%. In contrast, private banks show a higher ratio of net profit to assets. For instance, Kapitalbank, with assets valued at 44,880 billion UZS, recorded a net profit nearly equal to O'zsanoatqurilishbank, despite having assets almost half the size. At the end of 2023, Kapitalbank achieved the highest profit of 1,629.7 billion UZS, surpassing "O'zmilliybank" JSC. This table clearly indicates that while state-owned banks have significant assets, private banks show higher profitability ratios. This information indicates that privatized banks tend to achieve higher profitability compared to state-owned banks.

Several factors contribute to the lower profitability of state-owned banks:

- ❖ Inefficient use of financial and human resources due to high levels of state involvement, with inadequate corporate governance and risk management systems.

- ❖ Traditional roles of state-owned banks involve providing loans to priority programs, sectors, and state-owned enterprises at below-market rates.

- ❖ Business models of state-owned banks are primarily focused on serving corporate clients, with

poor development in innovations and information systems.

State-owned banks are used to provide loans for strategic government programs. During the reform of the banking system, it is essential to meet the financial service needs of all social segments and ensure territorial coverage of banking services. Therefore, the state's involvement is primarily retained in three banks: the "National Bank for Foreign Economic Activity of the Republic of Uzbekistan" JSC, "Agrobank" ATB, and "Mikrokreditbank" ATB.[6] However, this target has not yet been achieved, and delays are occurring in this area.

At the March 2024 conference in Tashkent, Fitch Ratings highlighted that since the announcement of a comprehensive banking sector reform strategy in May 2020, Uzbekistan's state banks have made significant strides towards adopting more commercial-based business models. However, deep-rooted structural weaknesses and new risks mean that further improvements may take longer to achieve. One of the key pillars of these reforms is privatization, aimed at transitioning state banks from directed lending to developing commercial operations following business model changes. Uzbek banks' underlying profitability should improve in the medium term due to the increased focus on higher-margin retail lending, but bottom-line performance will be largely driven by the cost of risk. State capital support has become more selective since the start of the banking reforms, with policy banks receiving the bulk of new Tier 1 capital injections. We assess state-owned banks' funding profiles as weak given their high reliance on state and wholesale funds (including from international financial institutions), and their limited liquidity buffers.[7]



CONCLUSIONS AND CONTRIBUTIONS

The Banking System as a Key Segment of the Economy

The role of banks extends beyond their own operations to directly influence national economic development and competitiveness. The growth and competitiveness of the economy are closely linked to the establishment of a stable and efficient banking system. To create an effective banking system, it's crucial to prioritize the privatization and transformation of state-owned banks. Despite the plan to reduce the number of state banks to three by 2025, as of 2024, there are still ten banks with significant state ownership.

Privatization and Foreign Investment

Expanding foreign capital involvement in bank privatization is essential. Attracting foreign investment increases currency inflows and introduces innovative banking practices from developed countries.

Financial Services Accessibility

Increasing the accessibility of financial services, expanding the reach of banks into various regions, and ensuring uniform service provision across all population centers are necessary additional measures. By modern financial technologies(FinTech), banks should widely implement modern FinTech to ensure information security and reduce human error in service delivery.

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