



THE BASIC PRINCIPLES OF LEGAL GOVERNANCE OF PRIVATE BANKS IN THE REPUBLIC OF UZBEKISTAN

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| Article history: | Abstract: |
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| Received: 17 th September 2023 Accepted: 15 th October 2023 Published: 20 th November 2023 | The article examines the methodology and aspects of regulating private bank operations in the Republic of Uzbekistan, as well as the steady development of the regulatory framework and practical issues in the field of banking regulation. |
| Keywords: Bank, Banking Regulations, Banking System, Central Bank, Economy Of Uzbekistan, Strategy Policy. | |

Since Uzbekistan's independence, as well as the formation of market relations, a certain challenge of comprehensive reform of banking legislation has emerged in Uzbekistan. This decision was made largely because the whole banking sector of the economy underwent significant changes over the years of independence. As a type of auxiliary branch of the Republic's economy, this field has begun to set the strategic beginning of formation and reform in a market economy.

Today, the republic's existing banking system is regarded as one of the most important components of the market infrastructure and the overall economic component of the country.

It should be mentioned that banking legislation should be interpreted as the full collection of regulatory legislative acts enacted by various authorized state organizations within their jurisdiction, governing not just banking operations but also the entire financial system in the nation.

Furthermore, the Republic of Uzbekistan's banking legislation has a pretty extensive set of legal papers, which now include several regulatory legislative actions.

The approach of separating the current foundation of banking law in Uzbekistan into four areas was used when evaluating the complete banking legislation of the country.

In the first sector, one of the most important in this instance should be referred to as legislative acts that control the formation and operations of banks in the financial system. Naturally, these acts should include the Law of the Republic of Uzbekistan "On Banks and Banking Activities," the Law of the Republic of Uzbekistan "On the Central Bank," the Law of the Republic of Uzbekistan "On Guarantees of Protection of Citizens' Deposits in Banks," the Law of the Republic of Uzbekistan "On Banking Secrecy," and other laws of the

Republic of Uzbekistan related to this sector. Based on this, these regulations should be referred to as institutional because they govern the operations of individual financial institutions, as well as the entire system as a whole.

The second sector in the system of banking legislation should include laws relating to the regulation of institutions operating in parallel, that is, laws that partially directly and mostly indirectly affect banking legislation to some extent. Such legislative acts should include the Law of the Republic of Uzbekistan "On Licensing of Certain Types of Activities" "On Joint-Stock Companies and Protection of Shareholders' Rights," the Law of the Republic of Uzbekistan "On Pledge," and other comparable articles of law.

Following that, we should evaluate legislative actions with universal application, which we shall ascribe to the third sector. As an example of such activities, we may look at the Constitution of the Republic of Uzbekistan, which is the country's fundamental law, as well as civil laws, namely the Civil Code. The above-mentioned laws' rules serve as the foundation not only for banks and banking legislation, but also for all persons and legal organizations in the nation. Their provisions, in particular, have a defining character for banks, as embodied in the principles of regulating bank activities and affecting their function and place in the legal relations of banks in life.

It should also be highlighted that Professor O.I. Lavrushin is the creator of the concept of splitting banking regulation into several sectors based on their area of applicability.

Furthermore, in addition to legislative actions in Uzbekistan, subordinate regulatory legal acts, such as Resolutions of the Cabinet of Ministers and Decrees of the President of the Republic of Uzbekistan, play an important role in the banking system. It is also important to notice the Central Bank's rules, decisions,



and written directions, which play an important and basic role in controlling bank activities.

Based on banking legislation, it is evident that the Central Bank's subordinate rules are the most relevant in a quantitative sense.

Perhaps, given the large number of acts from the Central Bank and the Central Bank's peculiarity in the legal regulation of commercial banks, it is necessary to distinguish between subordinate regulatory legal acts, such as regulations, instructions, and so on, acts of the Central Bank, and decisions of the government, ministries, and departments. This division is referred to as the fourth sector. However, if we use the historical method to examine the entire system of banking legislation, we should see the development of the banking system since the Uzbek SSR, which began its history with the creation of the law "On Banks and Banking Activities," which was adopted by the Supreme Council on February 15, 1991.

It should be mentioned that this law was created at that critical juncture with the assistance of commercial banks such as:

- Uzpromstroybank;
- Uzagroprombank;
- Uzvnesheconombank;
- Uzsberbank, as well as the State Bank of the Uzbek SSR.

Following the country's independence, this state bank was renamed and reorganized as the Central Bank of the Republic of Uzbekistan, and it is currently the primary supervisor of all banking activity in the country.

This order of banking system regulation was principally created and defined by the Republic's Constitution, specifically Article 124, which stipulates that "the banking system of the Republic of Uzbekistan is headed by the Central Bank of the Republic."

The Law of the Republic of Uzbekistan "On Banks and Banking Activities," issued November 5, 2019, is the second most significant law after the Constitution. Its objective is to govern all banking connections.

It should also be mentioned that throughout the country's development phase, the law "On Payments and Payment Systems" plays an essential role in the field of banking laws, with the primary objective of regulating relations in the field of payments and payment systems in the country. This is especially prevalent in legal relationships between persons and legal organizations that commonly utilize payment services.

The Law of the Republic of Uzbekistan "On Guarantees of Protection of Citizens' Deposits in Banks" also plays an important role in the field of banking, with the purpose of regulating legal relations in this area in order to ensure the protection of deposits of individuals and legal entities in the Republic of Uzbekistan, as well as foreign persons and stateless persons, in the country's banks.

In recent years, particularly after 2017, the country has undergone massive changes that have transformed the whole banking sector from the ground up, providing significant impetus to the country's development. The "Action Strategy 2017-2021" served as the foundation for these changes, which resulted in the President of the Republic of Uzbekistan issuing the Decree of the President of the Republic of Uzbekistan "On additional measures to increase the availability of banking services" on March 23, 2018, which had a significant impact on the republic's market mechanism.

Based on this resolve and strategy, the reform introduced new financial services into the Uzbek market, considerably facilitating and opening access to the essential currency exchange operations not only for enterprises but also for the whole population. As a result, such conditions were established in the country that the purchase of foreign money by legal ways became not only "de jure," but "de facto," changing the whole market regime, which was securely frozen and lost the core of the market economy.

To mitigate the effects of sharp market fluctuations, the Central Bank of the Republic of Uzbekistan implemented new mechanisms for withdrawing foreign currency cash by individuals and legal entities from national and international payment cards, naturally within the established limits of commercial banks.

In recent years, private and state-owned commercial banks have introduced new remote control systems for settlement and other individual accounts, which provided easy management of funds, management of foreign currency exchange operations, money transfers, as well as replenished types of services by systematization and digitalization of bank electronic platforms, the main of which was the experience of foreign private banks and their investment activity in the country.

Another significant achievement was the development and construction of its national retail payment system, which ensures the security and continuity of national, local, and international transactions in the country; the expansion of banking



services through the creation of payment systems in the form of electronic applications and various platforms; and, in recent years, the use of innovative contactless and mobile technologies that enable non-cash payments.

As a result of the country's changes during the last five years, socioeconomic, political, legal, scientific, and educational foundations have been established, which are required for the construction of a new Uzbekistan.

Today, emphasis should be placed on the country's new route, as outlined in the "Strategy for the Development of New Uzbekistan for 2022-2026."

The most significant aim of the new banking strategy was to conduct a gradual transformation of commercial banks with a state stake, with the goal of increasing the private sector's participation of the banking system to 60% by the end of 2026. That is, boosting private assets in state-owned banks has become a priority in this sector, and success will be a significant step forward in the country's economic growth via market processes.

Another area that has a direct impact on banking is the reduction of the value-added tax rate to 12% beginning in 2023 and the income tax rate in the direction of banking to 15% beginning in 2023, which will provide impetus to the development of banks that are already developing in difficult conditions (pandemic, etc.).

The aim established by this strategy of teaching highly skilled individuals to work in the banking and financial industry, which should lift the banking sector to a new worldwide level owing to new technology and innovative training techniques, is not to be underestimated.

This strategy has consolidated the already-developing digitalization and mechanization of banking activities, with the goal of increasing the level of digitalization of production and operational processes in the real sector of the economy, as well as in the financial and banking spheres, to 70% by the end of 2026. This approach will result in a significant reduction in bureaucratic processes in all sectors, including the banking industry, by establishing data exchange between government agencies and other private organizations via the integration of new modern platforms between departments and organizations, which will be formed in the form of electronic government.

In conclusion, the effect of the system-forming changes carried out throughout the years of

independence, as an outcome of the "Action Strategy 2017-2021" should be acknowledged.

However, in the banking system, Uzbekistan should significantly expand its potential in the private banking sector while modernizing legislation regulating private commercial banking and introducing new economic mechanisms that create new types of services in this area, based on the new goals set for the next five years. This method increases the appeal of the banking business to individuals, whose expansion means a quick increase in public investment and an increase in foreign investment in this field, both of which are critical during the growth of Uzbekistan's young economy and legal system.

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