



## NEW DIRECTIONS OF IMPROVING THE FINANCIAL AND BANKING SYSTEM IN MODERN UZBEKISTAN

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Article history:	Abstract:
<b>Received:</b> 2 <sup>nd</sup> February 2022 <b>Accepted:</b> 2 <sup>nd</sup> March 2022 <b>Published:</b> 13 <sup>th</sup> April 2022	This article contains a number of ideas and proposals for the further improvement of the financial and banking system of the country, the stable and reliable functioning of the financial and banking system, in particular, the banking system is a locomotive of the economy and the prestige of the financial and banking system.

**Keywords:** Financial and banking system, commercial banks, portfolio of credit, financial assets, REPO and SVOP operations, leasing, insurance company.

### INTRODUCTION

In the current context of financial globalization, as a result of the progressive macroeconomic and active investment policy pursued by President SH.M.Mirziyoyev in our country, as well as further improvement of the financial and banking sector of Uzbekistan, increasing the role of financial markets in the world economy. Despite the global crisis, the country's economy has maintained high sustainable growth rates and macroeconomic balance. This is evidenced by the Action Strategy for the five priority areas of development of the Republic of Uzbekistan for 2017-2021, approved by the decree of the President of the Republic of Uzbekistan: "strengthening their financial stability and reliability, promising investment projects and further expansion of lending to small businesses and private entrepreneurship"<sup>1</sup>.

As a result of reforms in the financial market of our independent country, including the financial and banking system, the financial and banking system and market infrastructure in line with modern world standards and requirements are gradually being formed, a number of legislative initiatives outgoing important measures are being taken. In particular, due to the great attention paid to ensuring the stability of the financial and banking system in our country, the stable and reliable functioning of the financial and banking system, its growing prestige in the global financial market, as well as our bold steps to modernize our country. as well as being recognized by

a number of reputable international financial institutions.

### REVIEW OF LITERATURE ON THE SUBJECT

International economists have differing views on the financial system. In particular, in the relevant textbooks of the former Soviet era, areas of the financial system are, in most cases, interpreted in two different ways. Representatives of the Leningrad (now St. Petersburg) school A.M. Alexandrov, E.A. According to Voznesensky, "The financial system is usually divided into two areas:

- 1) finance of enterprises and sectors of the national economy;
- 2) consists of public finances"<sup>2</sup>

Representatives of the Moscow School D.S. Molyakov, V.M. Rodionova, T.V. According to Guyda, "The financial system consists of:

- 1) finance in the field of material production;
- 2) The state budget;
- 3) links such as non-manufacturing finance."<sup>3</sup>

Nevertheless, they were both fully in line with the economic base of the former Soviet Union and the financial policies pursued by it. Our local economists have also commented on the concept of the financial system. In particular, according to the well-known economists of the country A.Vahobov and A.Olmasov: "The system of forms and methods of formation, distribution and use of funds of the state and

<sup>2</sup> Александров А.М. "Финансы социализма" / А.М. Александров, Э.А. Вознесенский-М. : "Финансы" - 1974 г. 335 с.;

<sup>3</sup> Родионова В. М. Финансы 1995. – 432 с., Гуйда Т. В. Формирование и использование финансовых ресурсов-1986 г. 58 с., Моляков Д. С. Финансы предприятий отраслей народного хозяйства–1996 г. 176 с.

<sup>1</sup> Paragraph 3.1 of the Decree of the President of the Republic of Uzbekistan № PF-4947 of February 7, 2017 "Strategy of actions on five priority areas of development of the Republic of Uzbekistan in 2017-2021"



enterprises is called the financial system. The financial system is divided into two areas:

- public finance and local finance;
- finance of business entities."<sup>4</sup>

The concept of financial system is the result of the development of the concept of finance in the broadest sense.

### **ANALYSIS AND RESULTS**

In our country, special attention is paid to strengthening and improving the quality of the financial and banking system, as well as the emergence of commercial banks as a locomotive of the economy and their transformation into large investment institutions. Because the financial and economic stability of our country largely depends on the effective functioning of the financial and banking system. Consistent and targeted reforms in the banking system of Uzbekistan will not only ensure its reliable protection from the negative effects and consequences of the global financial crisis, but also achieve significant and qualitative changes in banking, expand lending to the real sector of the economy and improve banking and financial services. allowed to radically improve the level of delivery.

The main factor in the development of the financial and banking sector in our country is the establishment of close cooperation with foreign countries. We all know that there are three main models of financing the economy:

- model of financing through bank loans;
- securities market financing model;
- Islamic model.<sup>5</sup>

These models are widely used in our national economy. In particular, the first and third models are now the main models of financing our economy.

As proof of the above, the 46th Annual Meeting of the Board of Governors of the Islamic Development Bank (IDB) was held on September 1-4, 2021 in Tashkent. President of Uzbekistan Sh.M.Mirziyoyev also took part in the meeting. In his speech at the opening ceremony, the head of state noted that the holding of the annual meeting of the bank in Tashkent is symbolic. He noted that the countries of the world are facing serious challenges

such as climate change, migration, environmental, energy and food shortages, and called on the member countries of the Islamic Development Bank to work together to effectively address these threats. he said he had to. In addition, as a solution to these problems, the President said that the Islamic Development Bank has the ability to manage these processes and proposed to develop a concept for the formation of a new trade and economic zone called "Green Corridor from West Africa to East Asia."<sup>6</sup>

The conference identified new aspects of economic cooperation between the IDB and the Republic of Uzbekistan. In particular, the Economic Capacity Building Fund was established with the participation of the IDB.

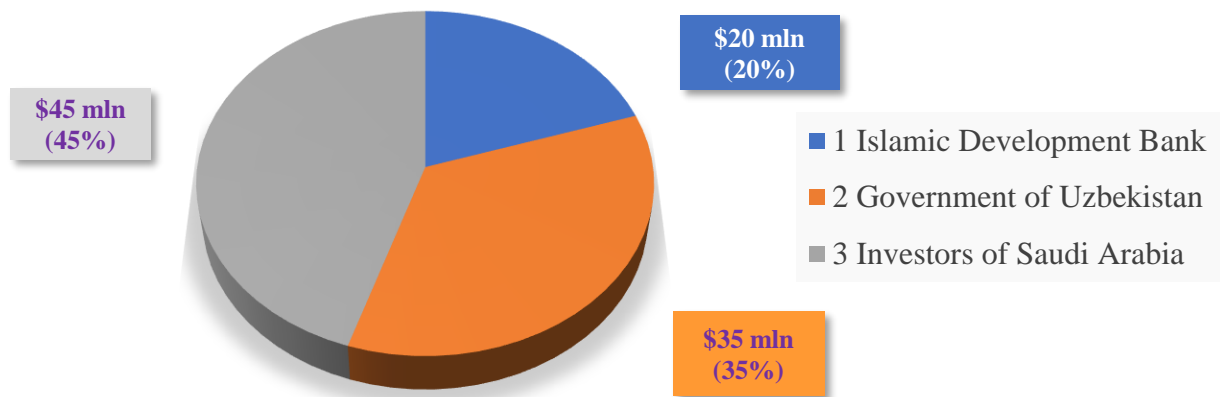
<sup>4</sup> Vahobov A.V., Malikov T.S. Finance. Textbook. Tashkent Financial Institute. - Tashkent: "Noshir", 2012. Page 65.

<sup>5</sup> S. Elmiraev, N. Tursunova and others. Financial market. T.: "Economics and Finance", 2019. Page 9

<sup>6</sup> Speech by President of the Republic of Uzbekistan Sh.M.Mirziyoyev at the 46th Annual Meeting of the Board of Governors of the Islamic Development Bank (IDB) in Tashkent on September 1-4, 2021



### Distribution of shares in the initial authorized capital of the Fund



**Diagram 1. The status of the initial authorized capital of the Fund<sup>7</sup>**

Trust Bank has reached an agreement with the International Islamic Trade and Finance Corporation to open a \$ 15 million foreign trade finance line. Details are given in the table below:

As can be seen in the figure above, the initial authorized capital of the fund is \$ 100 million, with the IDB's share being \$ 20 million, the Uzbek government's share being \$ 35 million and the share of Saudi investors being \$ 45 million. The fund will create more than 100,000 new jobs by supporting small, medium and large businesses.

In addition, under the agreement with the IDB, \$ 615.9 million (that is 79.3%) of projects worth \$ 776.3 million in 2019, \$ 623.0 million (that is 94.3%) of projects worth \$ 682.0 million in 2020 and the total cost of 2021 of the \$ 583.9 million projects, \$ 546.5 million (that is 93.6%) will be financed by the bank. In particular, a \$ 200 million loan agreement was signed for the modernization of rural infrastructure in the Republic of Karakalpakstan, Khorezm, Bukhara and Navoi regions under the Rural Development Program. In addition, a \$ 80 million loan agreement has been signed to support a project to develop oncology services in Uzbekistan, a \$ 40.7 million loan to equip the Republican Specialized Cardiology and Endocrinology Centers with medical equipment, a program to improve alternative schooling and a pre-school development program. \$ 65.6 million and a number of other important agreements have been reached to co-finance the increase. In addition, the

<sup>7</sup> Based on the textbook literature and Internet resources.



**Table 1**  
**List of promising investment projects proposed to be implemented jointly with the Islamic Development Bank<sup>8</sup>**  
*mln dollar*

№	Directions of financing	Project value	Credit sum
<b>For 2019</b>			
<b>Ministry of Economy and Industry of the Republic of Uzbekistan</b>			
1	Improvement of water supply, road transport and engineering-communication infrastructure in the villages of Khorezm region and the Republic of Karakalpakstan within the framework of the "Prosperous Village" program	200,0	200,0
<b>Ministry of Health of the Republic of Uzbekistan</b>			
2	Equipping the Republican Specialized Cardiology Center and its institutions with medical equipment, providing specialized cardiology care	32,0	25,0
3	Equipping the Republican Specialized Scientific-Practical Medical Center of Endocrinology and its institutions providing specialized endocrinology care	20,0	15,7
<b>Ministry of Preschool Education of the Republic of Uzbekistan</b>			
4	Improving alternative models of preparing children for school	35,6	35,6
5	Co-finance the implementation of the program of development of preschool educational institutions on the basis of modern technologies	120,0	30,0
<b>Ministry of Housing and Communal Services of the Republic of Uzbekistan and Khokimiyat of Surkhandarya region</b>			
6	Construction of Tupalang-Termez interregional water pipeline with water treatment plant in Surkhandarya region	187,5	150,0
<b>Ministry of Transport of the Republic of Uzbekistan</b>			
7	Construction and reconstruction of two sections (21 km) of the M-39 Tashkent-Termez highway	29,6	29,6
8	Reconstruction of M-39 "Almaty-Bishkek-Tashkent-Shahrisabz-Termez" highway on the section 1037 - 1081 km	105,6	88,0
9	Reconstruction of the highway M39 "Almaty-Tashkent-Shahrisabz-Termez" on the section 1410-1426 km and 1395-1400 km with the construction of a tunnel through the pass "Takhtakarachi"	46,0	42,0
<b>All for 2019:</b>		<b>776,3</b>	<b>615,9</b>
<b>For 2020</b>			

<sup>8</sup> Prepared on the basis of the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated May 23, 2019 No 428 "On measures to further develop cooperation with the funds of the Islamic Development Bank Group and the Arab Coordination Group".



<b>Ministry of Economy and Industry of the Republic of Uzbekistan</b>			
10	Improvement of water supply, road transport and engineering-communication infrastructure in Kashkadarya and Surkhandarya regions within the framework of the "Prosperous Village" program	200,0	200,0
<b>Ministry of Health of the Republic of Uzbekistan</b>			
11	Equipping the Republican Oncology Service with modern high-tech equipment	90,0	67,0
<b>Ministry of Transport of the Republic of Uzbekistan</b>			
12	Reconstruction of M-41 Bishkek-Dushanbe-Termez highway on the section 1444 - 1622 km	392,0	356,0
<b>All for 2020:</b>		<b>682,0</b>	<b>623,0</b>
<b>For 2021</b>			
<b>Ministry of Economy and Industry of the Republic of Uzbekistan</b>			
13	Improvement of water supply, road transport and engineering-communication infrastructure in the villages of Bukhara, Navoi and Samarkand regions within the framework of the "Rural Development" program	200,0	200,0
<b>Ministry of Health of the Republic of Uzbekistan</b>			
14	Equip health facilities with modern medical oxygen supply	15,0	15,0
15	Improving perinatal services in the Republic of Uzbekistan	40,0	40,0
<b>Ministry of Housing and Communal Services of the Republic of Uzbekistan and Khokimiyat of Bukhara Region</b>			
16	Improving water supply in Kagan district of Bukhara region	71,9	57,5
<b>Ministry of Transport of the Republic of Uzbekistan</b>			
17	Reconstruction of A-380 Guzar-Bukhara-Nukus-Beynov highway on the section 581-698 km	257,0	234,0
<b>All for 2021:</b>		<b>583,9</b>	<b>546,5</b>
<b>Total for 2019-2021:</b>		<b>2 042,2</b>	<b>1 785,4</b>

Significantly, the IDB's 46th annual meeting approved 30 agreements worth \$1.2 billion to revitalize the economies of Muslim countries in the post-pandemic period. Of this amount, \$330 million (27.5%) will be allocated to Uzbekistan.

It should be noted that today the banking business is one of the fastest growing segments of the economy of the country, as evidenced by the growth rates of key indicators in the sector, such as assets, capital level, credit and investment operations.

It is known that in recent years the country has deepened and strengthened the reform of the

financial and banking system, radically changed the approach to the activities of banks and the entire financial and banking system, as well as the assessment system, in accordance with international norms, standards and assessment indicators. A number of laws, decisions and decrees have been adopted to ensure a higher level of organization of banking activities. As an example, on May 12, 2020, the Decree of the President of the Republic of Uzbekistan No. PF-5992 "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020 - 2025" was adopted.



The decree identifies the following as the main directions of reforming the banking sector in the Republic of Uzbekistan:

- creating a level playing field in the financial market, lending only on market terms, reducing the dependence of banks on public resources, modernizing banking services, creating an effective infrastructure and automation of banks, as well as the gradual implementation of non-banking functions. increase the efficiency of the banking system through liquidation;
- improving the quality of credit portfolio and risk management, adhering to the moderate growth of lending, balanced macroeconomic policy, improving corporate governance and attracting managers with international experience, the implementation of technological solutions for financial risk assessment ensuring the financial stability of the system;
- comprehensive transformation of state-owned commercial banks, introduction of modern banking standards, information technology and software products, competitive sale of state-owned shares in banks to investors with the necessary experience and knowledge, as well as consolidation of state-owned commercial banks and enterprises. reducing the share of the state in the banking sector through timely reform;
- strengthening state participation and implementation of targeted measures in inadequate and vulnerable groups, development of a network of low-cost service points, as well as the formation of non-bank credit institutions as a complementary part of the single financial system of the republic and increase the popularity and quality of financial services by creating favorable conditions for their development.<sup>9</sup>

In turn, it should be noted that the adoption of the Law of the Republic of Uzbekistan No. RRU-339 "On private banking and financial institutions and guarantees of their activities", adopted on December 17, 2012 Establishment and creation of favorable and equal conditions for the establishment and operation

<sup>9</sup> Decree of the President of the Republic of Uzbekistan PF-5992 of May 12, 2020 "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020 - 2025"

of private commercial banks and financial institutions in the country, such as leasing, insurance companies, microfinance institutions, attraction and effective use of private capital, financial base and income of the private sector This has created a legal framework that will serve as an important factor for the development of modern financial infrastructure, expanding the resource base of commercial banks and other financial institutions, further stimulating the attraction of free funds of the population to deposits.

Further deepening of economic reforms in our country will require large investments. It is known that investments can be attracted through all segments of the financial market. That is why the role of financial markets, especially securities, in the country's economic growth is enormous. The development of financial markets and modern financial infrastructure is one of the main conditions for the transition to innovative development. Only in this way will it be possible to intensify investment activities and generate investment flows, and then redirect to the high-tech sector. Without the creation of key elements of modern financial markets, the inflow of direct investment, which is one of the key factors of economic growth, cannot be achieved. With the help of the financial market, the movement of money in the economy is ensured, as well as the uninterrupted formation, efficient use and investment of financial resources. It ensures the free movement of money invested between different sectors of the economy, the free and rational use of financial resources. In turn, the mobilization of money for capital production will strengthen economic potential, accelerate innovation, scientific and technological progress, and on this basis will further increase the welfare of the people.

## CONCLUSIONS AND SUGGESTIONS

It is known that during the global financial and economic crisis, the financial and banking system of our country has proved its stability and reliability. At the same time, in order to further develop and increase the stability of the financial and banking system of Uzbekistan, it is necessary to carry out the following work:

- ✓ regulation, control and sustainable development of the financial market of Uzbekistan in accordance with the requirements of international practice;
- ✓ further liberalization of the financial market in accordance with the requirements of world





- standards, increasing its stability and capitalization;
- ✓ strengthening the competitiveness of the financial market of the country and the formation of new segments;
  - ✓ Development of effective tools to ensure the country's integration with international financial markets in order to attract foreign investment in the financial market, increase foreign exchange earnings in the national economy;
  - ✓ Ensuring economic growth in Uzbekistan, as well as the formation of resources for the implementation of priority socio-economic programs, the wider use of the potential of the financial market in attracting investment;
  - ✓ further strengthening the investment activity of commercial banks and non-bank financial institutions and further expanding their participation in financing the modernization of the economy and investment projects;
  - ✓ further development of REPO, SVOP operations in order to regulate liquidity in the financial market;
  - ✓ Improving the quality of services provided by financial institutions operating in the financial market and further expanding the range of modern financial services;
  - ✓ Analysis of best international practices in the development of global financial markets in the context of the financial and economic crisis and assessment of their application in the practice of Uzbekistan.

In carrying out the above work, it is necessary to accelerate the process of modernization of the financial and banking sector, further strengthen the financial market and form a modern market infrastructure that meets international standards, further strengthen competition in the financial market, improve the quality and scope of services provided by financial institutions. allows for further expansion.

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