



Monetary and Credit System of Uzbekistan

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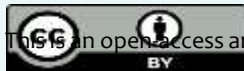
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Abstract. The article is devoted to the analysis of Uzbekistan's monetary and credit system, including its historical development, current state, and future prospects within the framework of the "Uzbekistan – 2030" Strategy. The study examines the key stages in the formation of the banking system, the role of the Central Bank in regulating monetary circulation and implementing monetary policy, as well as recent achievements and challenges. Special attention is given to the digitalization of financial services, the growth of the banking sector, and support for the real sector of the economy. The analysis is based on statistical data, official documents, and expert assessments.

Keywords: monetary and credit system, Uzbekistan, Central Bank, banking reform, economic growth, inflation targeting, digitalization.



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Introduction

The monetary and credit system is a crucial component of Uzbekistan's economy, playing a key role in ensuring financial stability and supporting economic growth. Since gaining independence in 1991, Uzbekistan has undergone significant changes in its banking system. In the early years of independence, the monobank system was dismantled and replaced by a two-tier banking system consisting of the Central Bank of the Republic of Uzbekistan (CBU) and commercial banks[1].

The Central Bank, established on the basis of the regional branch of the USSR State Bank, became the main regulator of monetary circulation and the payment system. In its initial years, the CBU did not perform the emission function because the national currency—the sum—was introduced only in 1994. After that, the Central Bank gained full independence in its actions and began conducting an independent monetary policy[2].

An important guideline for the development of the monetary and credit system is the "Uzbekistan – 2030" Strategy, approved by the Presidential Decree of the Republic of Uzbekistan on September 11, 2023 (UP-158). This strategy aims to build a prosperous and inclusive society, achieve sustainable economic growth, and elevate Uzbekistan to the ranks of upper-middle-income countries.[3]. Within the framework of the Strategy, special attention is paid to modernizing the financial sector, increasing financial accessibility, developing digital payment systems, and strengthening macroeconomic stability. Monetary policy is viewed as one of the key tools to achieve these goals, including reducing inflation to the target level of 5% and stimulating investment in the real sector of the economy.[4]

Today, Uzbekistan's banking system includes 33 banks: 12 with state participation, 15 private banks, and 5 foreign banks. The assets of the banking system constitute a significant part of the economy, and their effective functioning is critical for the country's sustainable development[5].

Literature Review

The analysis of literature dedicated to the monetary and credit system of Uzbekistan demonstrates a comprehensive approach to studying the topic. Economists and analysts emphasize the importance of monetary policy in ensuring price stability and supporting economic growth. According to official documents, the main goal of the policy is to maintain inflation at the level of 5%, which helps preserve the purchasing power of the population and creates conditions for sustainable growth.[6]

Abrorkhuja Turdaliev, Deputy Head of the Central Bank of Uzbekistan, notes that the liquidity indicator of the banking system is at a high level: the Liquidity Coverage Ratio (LCR) reached 167%, which is 67 percentage points above the minimum regulatory requirements.[7] This indicates a sufficient liquidity buffer to ensure the safety of banks. Experts from “Expert RA” point out that the banking system includes 35 commercial banks, among which 10 are state-owned and 9 have foreign participation, and the total assets of the sector at the end of 2023 amounted to 652 trillion soms, increasing by 17% compared to 2022.[8]

Economists also emphasize the flexibility of monetary policy as a tool of state stabilization policy. It allows for prompt responses to economic downturns by increasing the money supply or restraining inflation by limiting it.[13] The literature highlights digitalization and financial inclusion as priorities aligned with the goals of the “Uzbekistan – 2030” Strategy.[9]

Research Methodology

The research methodology is based on the analysis of secondary data using a descriptive approach and comparative analysis. The study involved the collection, systematization, and interpretation of statistics, official documents, publications from the Central Bank, and expert assessments. Comparative analysis was used to evaluate the dynamics of key indicators of the banking system (assets, liquidity, lending) for the period 2020–2023. Data sources included official portals (Central Bank of Uzbekistan, Lex.uz, Uzbekistan2030.uz), as well as reports from international organizations and rating agencies such as Expert RA and the IMF.

Analysis and Results

The monetary and credit system of Uzbekistan has undergone significant changes over the past decades aimed at strengthening financial stability and supporting economic growth. Since gaining independence in 1991, the country transitioned from a monobank system to a two-tier banking system, consisting of the Central Bank and commercial banks. The introduction of the national currency—the sum—in 1994 was a key milestone in forming an independent financial system, enabling the implementation of market regulation mechanisms [10].

At the current stage, Uzbekistan’s banking system includes 35 commercial banks, of which 10 have state participation, 9 have foreign capital, and 16 are private banks. The total assets of the banking sector at the end of 2023 reached 652 trillion sums (approximately \$51 billion at the 2023 exchange rate), increasing by 17% compared to the previous year.[11] This growth reflects a stable development dynamic of the banking system despite global economic challenges such as commodity market volatility and geopolitical risks. Result: the banking sector grew by 17%, with assets reaching 652 trillion sums.

A key element of monetary policy is maintaining price stability, achieved through an inflation targeting regime introduced in 2019. The target inflation rate is set at 5% by 2025, aligning with the goals of the “Uzbekistan – 2030” Strategy.[12] In 2023, annual inflation was 8.8%, lower than the 2022 figure of 11.4%, but still above the target level[13]. The inflation decline was driven by tightening monetary conditions, including money supply regulation and credit activity control. Result: inflation decreased by 2.6 percentage points to 8.8%, moving closer to the 5% target.

The liquidity of the banking system remains at a high level. The Liquidity Coverage Ratio (LCR) reached 167% at the end of 2023, which is 67 percentage points above the minimum regulatory requirements. In addition, the level of bank capitalization remains sufficient: the Capital Adequacy Ratio (CAR) averages 14.2% across the system, exceeding international standards (8% under Basel III)[14]. These indicators demonstrate a significant liquidity buffer and the resilience of banks to potential shocks. Result: high liquidity (LCR 167%) and capitalization (CAR 14.2%) ensure financial stability.

An important area of development is the digitalization of banking services. As of 2023, more than 20.7 million bank cards were in circulation in Uzbekistan, and the number of payment terminals reached 407 thousand units. The national payment system HUMO, launched in 2019, processed transactions totaling over 150 trillion sums in 2023, which is 25% more than in 2022. Remote banking services are also gaining popularity: about 65% of retail banking operations in 2023 were conducted through mobile applications and internet banking[15]. Result: digitalization is progressing with 20.7 million bank cards and a 25% increase in HUMO transactions to 150 trillion sums.

Within the framework of the “Uzbekistan – 2030” Strategy, emphasis is placed on improving financial accessibility and supporting small and medium-sized businesses (SMEs). The share of loans issued to SMEs increased from 24% in 2020 to 32% in 2023, while the total volume of loans to the real sector of the economy amounted to 485 trillion sums[16]. This contributes to economic diversification and reduces dependence on raw material exports. However, the growth of non-performing loans to 16.6 trillion sums in 2023 indicates the need to strengthen risk management. Result: SME loans increased to 32%, loans to the real sector reached 485 trillion sums, but non-performing loans rose to 16.6 trillion sums.

The banking system faces a number of challenges. A high share of state-supported loans (about 40% of the total portfolio) creates risks to financial stability in case of economic deterioration. The level of dollarization of the economy remains significant: about 35% of deposits and 28% of loans are denominated in foreign currency, making the system vulnerable to currency fluctuations [17]. The low level of financial literacy among the population (about 40% of adults lack basic financial knowledge) limits the use of banking services in rural areas[18]. Result: dollarization (35% of deposits), state loans (40%), and low financial literacy (40%) remain key risks.

Conclusion and Recommendations

The monetary and credit system of Uzbekistan has undergone significant transformation over recent decades—from the Soviet-era monobank model to a modern two-tier system comprising the Central Bank and commercial banks. Since the introduction of the national currency in 1994, the Central Bank has played a key role in ensuring financial stability and implementing monetary policy aimed at maintaining inflation at 5% and stimulating economic growth. Reforms initiated in 2017, including the shift to an inflation-targeting regime and economic liberalization, have contributed to strengthening the banking sector, increasing its assets (652.1 trillion sums in 2023) and expanding credit investments (471.4 trillion sums). However, the rise in non-performing loans (up to 16.6 trillion sums in 2023) highlights the need for further improvement in credit portfolio quality and enhanced risk management.

The banking system demonstrates steady growth and high liquidity (LCR at 167%), providing a solid foundation for the country’s continued economic development. The reform strategy for 2020–2025 focuses on increasing the competitiveness and efficiency of the banking sector, which, combined with favorable macroeconomic forecasts, opens prospects for sustainable growth. Thus, Uzbekistan’s monetary policy remains an important tool for economic stabilization and development, successfully adapting to modern challenges. We consider it necessary to propose the following recommendations:

Strengthen control over the quality of the loan portfolio: Considering the 18% increase in non-performing loans (NPLs) in 2023 (up to 16.6 trillion sums), the Central Bank and commercial banks should develop stricter mechanisms for credit risk assessment and implement measures to reduce the share of NPLs, such as restructuring problematic loans and raising borrower requirements.

Expand access to financial services: To increase coverage of the population and businesses, it is recommended to develop digital banking technologies, including mobile applications and online platforms, especially in rural areas of the country.

Stimulate lending to the real sector of the economy: Given the 47% growth in loans to the population compared to 15.3% for entrepreneurship in 2023, it is advisable to develop preferential lending programs for small and medium-sized businesses to support entrepreneurship and diversify the economy.

Deepen the inflation-targeting regime: To enhance the effectiveness of monetary policy, the Central Bank should continue improving inflation management tools, including the development of the government securities market and strengthening trust in the national currency.

Intensify attraction of foreign capital: Considering that there are only 9 banks with foreign

participation, efforts should be strengthened to attract foreign investors to the banking sector, which will increase competition and bring new technologies and management practices.

Implementing these recommendations will strengthen Uzbekistan's monetary and credit system, increase its resilience to external and internal challenges, and ensure the country's long-term economic growth.

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