

E- Global Congress

Hosted online from Dubai, U. A. E., E - Conference.

Date: 30th May 2026

Website: <https://eglobalcongress.com/index.php/egc>

ISSN (E): 2836-3612

TRANSFORMING THE BANKING SECTOR OF UZBEKISTAN: INTEGRATION CAPACITY AMID MIDDLE EAST ECONOMIC CHALLENGES AND EXTERNAL PARTNER RISKS

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Abstract

This article examines the integrative potential of the banking sector in the Republic of Uzbekistan within the context of national economic development. Through an analysis of macroeconomic indicators, structural reforms, and financial metrics from 2020 to 2024, the study evaluates the sector's capacity to support the real economy, promote financial stability, and enhance investment activities. Special attention is given to the synergy between the banking and industrial sectors, the digitalization of banking services, and the sector's adaptation to global financial challenges.

Keywords: Uzbekistan, banking sector, economic integration, financial stability, industrial development, digital transformation, capital adequacy, investment financing.

Introduction

The banking sector of Uzbekistan occupies a central position in the financial architecture of the country, contributing significantly to economic stability and the financing of strategic investment projects. The sector's role has expanded in recent years, particularly through increased integration with the industrial sector and adoption of digital technologies.

The substantive part of the research. As of October 1, 2024, the assets of Uzbekistan's banking system amounted to 686.2 trillion UZS, with liabilities totaling 583.4 trillion UZS. Notably, 67.3% of assets and 70.1% of the credit portfolio are concentrated in 10 state-owned banks, highlighting the significant role of government-supported financial institutions in the national economy.

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In 2024, total investments in Uzbekistan's economy increased by 1.3 times, exceeding \$36 billion. These funds supported the implementation of 560 large and medium-scale projects worth 70 trillion UZS, laying the foundation for a projected \$1 billion increase in export revenue in the following year [1]. The synergistic potential of the banking sector is reflected in its ability to customize financial products, services, and innovations to meet the needs of the real sector. The integration of digital technologies and strengthened collaboration with international financial markets further enhances the sector's capacity to deliver efficient and modern financial solutions.

Uzbekistan's banking sector, with its substantial financial resources and active participation in investment processes, significantly contributes to the country's economic development by supporting strategic projects and fostering sustainable national economic growth [2].

The integration of digital technologies and the strengthening of synergies with international financial markets significantly enhance the synergistic potential of banks [3]. By adopting advanced technological solutions and fostering global financial collaboration, Uzbekistan's banking sector can further optimize its operations and align more closely with the needs of the real sector.

Uzbekistan's financial sector is well-developed, with several major financial groups actively operating in the country. These institutions play a pivotal role in driving economic growth and supporting the implementation of strategic initiatives. By leveraging modern financial instruments and innovative approaches, these groups contribute to enhancing the overall stability and competitiveness of the national economy.

Efforts to integrate digital solutions into banking operations and deepen engagement with global financial markets will further strengthen the sector's capacity to support sustainable economic development and meet evolving market demands [4].

Financial groups in Uzbekistan engage in a diverse range of operations, including banking, insurance, and asset management. One of the largest and most influential financial institutions in the country is the National Bank of Uzbekistan (NBU). As the central bank, NBU is responsible for regulating monetary policy and ensuring the stability of the banking sector. Alongside

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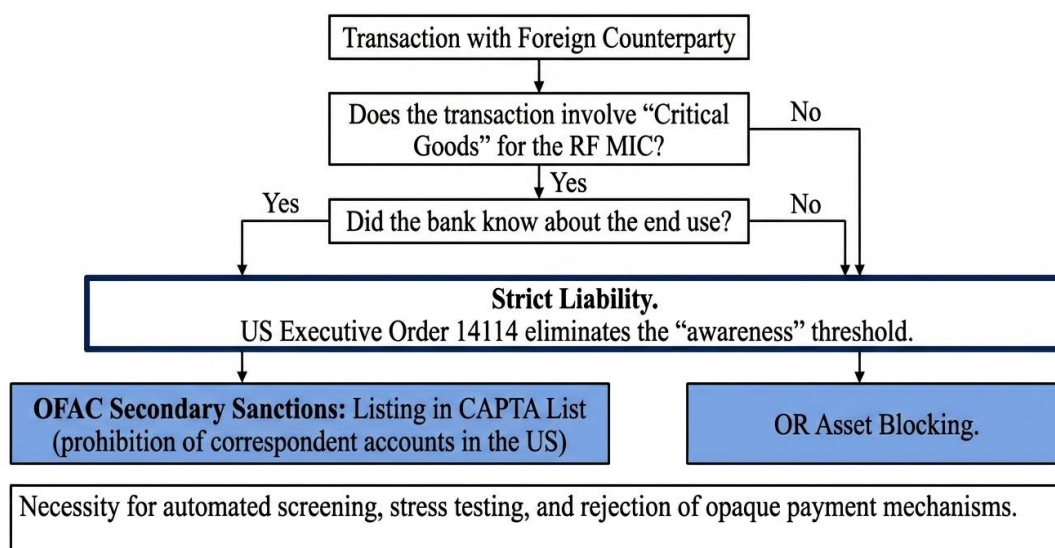
ISSN (E): 2836-3612

NBU, several key commercial banks, such as "Asaka Bank," "Kapitalbank," and "O‘zqishloqbank," play vital roles in supporting the nation’s economic growth.

As of October 1, 2024, the assets of Uzbekistan's banking system amounted to 686.2 trillion UZS, with liabilities totaling 583.4 trillion UZS. Notably, 67.3% of these assets and 70.1% of the credit portfolio are concentrated in 10 state-owned banks, highlighting the significant role of government-supported financial institutions in the national economy.

In the industrial sector, there has been a consistent increase in the number of enterprises. By July 2024, Uzbekistan registered 111,968 industrial enterprises, marking a 3.6% rise compared to the same period in 2023. This growth reflects the country's strategic focus on industrial development and investment attraction [5].

The synergistic potential between Uzbekistan’s banking sector and its industrial sector is substantial, offering numerous benefits to both. By providing long-term financing, risk management solutions, and tailored financial products, banks can help drive industrial growth while securing stable revenue streams from the real sector. Conversely, industrial growth strengthens the banking sector by generating increased financial activity and demand for banking services [6].



Despite this promising potential, several challenges must be addressed to fully realize this synergy. These include improving financial infrastructure, addressing inefficiencies in credit allocation, and fostering greater collaboration between financial and industrial stakeholders. Resolving these

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issues will enable Uzbekistan to harness the full benefits of this collaboration, driving sustainable economic development and competitiveness on both a national and global scale.

The synergistic collaboration between the banking and industrial sectors in Uzbekistan has the potential to significantly enhance the financing of industrial projects, thereby contributing to economic growth. However, the industrial sector currently faces several challenges in securing financing, including high interest rates, stringent collateral requirements, and limited funding options from commercial banks.

As of Q3 2024, Uzbekistan's banking sector demonstrates stability and resilience, with major financial institutions maintaining their positions in rankings. This reflects the maturity of the market and its ability to adapt to external changes. Additionally, improvements in the performance of certain banks highlight positive trends in financial attractiveness and liquidity.

Through synergistic collaboration, banks can offer financial solutions tailored to the specific needs of industrial companies. This alignment could lead to increased investments and accelerated economic growth. Furthermore, improved financial intermediation efficiency is another potential advantage of such collaboration. Currently, there is a notable gap between the demand for and supply of financing in Uzbekistan. By fostering better information exchange between banks and industrial enterprises, this gap can be reduced, enabling the identification of investment opportunities and the provision of suitable funding.

However, certain challenges need to be addressed to fully realize the benefits of this synergy. One of the primary issues is the underdeveloped capital market in Uzbekistan. Without a robust capital market, banks may be reluctant to engage in long-term financing of industrial projects, potentially limiting the scope of synergistic collaboration. Additionally, cultural and institutional barriers must be overcome to facilitate smoother cooperation between banks and industrial enterprises.

Addressing these issues would enable the banking and industrial sectors in Uzbekistan to fully realize their synergistic potential. This, in turn, would serve as a critical factor in ensuring economic growth and stability, while fostering a more resilient and dynamic financial ecosystem [7].

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Simultaneously, the growth of commercial banks' capital expands opportunities for diversifying financial products and implementing innovations. This contributes to strengthening synergistic linkages between the banking sector and the real economy, positively impacting overall economic stability. The expansion of capital in Uzbekistan's commercial banks serves as a critical factor in enhancing the quality of financial services, attracting investments, and ensuring competitiveness in financial markets. Between 2020 and 2024, Uzbekistan's banking sector demonstrated steady growth and development despite challenges such as the COVID-19 pandemic and global economic fluctuations. During this period, the financial system played a pivotal role in the national economy, accounting for 94% of total financial services. Although the banking sector faced difficulties in lending during the pandemic, economic support measures and reforms led to recovery and positive dynamics from 2021 onward.

The charter capital of commercial banks witnessed significant growth. In 2022, it amounted to 57.178 trillion UZS, surpassing 70 trillion UZS by 2024. This, in turn, contributed to strengthening financial stability and expanding opportunities to finance economic projects. The capital adequacy ratio (CAR) remained stable at approximately 17.5%, ensuring sector reliability in compliance with international standards.

The credit portfolio also continued to grow. The total volume of loans increased from 326 trillion UZS (\$30.8 billion) in 2021 to higher levels by 2024. Foreign currency-denominated loans consistently accounted for 49.6% of the portfolio, reflecting stable strategies aimed at managing currency risks. Moreover, the banking sector's quick liquidity ratio rose from 67.4% in 2020 to 99.3% in 2021, with further increases in subsequent years [5].

As the financial activities of banks recovered from the effects of the pandemic, the return on assets (ROA) decreased from 2.2% to 1.3% during 2020–2021, though a recovery trend was observed in subsequent years. Similarly, the return on equity (ROE) declined from 10.3% to 6.1% during the same period but showed improvement by 2024.

During this time, the banking sector placed significant emphasis on supporting the real economy, including agriculture, industry, and small businesses. The financing of long-term projects increased, providing a

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critical foundation for the success of economic reforms. However, instability in international markets and economic fluctuations necessitated the strengthening of risk management strategies within the banking sector [6].

An analysis of liquidity indicators in Uzbekistan's commercial banks during 2020–2024 demonstrates a significant improvement in key financial metrics, contributing to the strengthening of financial stability within the banking system. Overall liquidity, which reflects banks' ability to meet short-term obligations, increased from 67.4% to 112.5% during this period. This growth indicates enhanced efficiency in asset and liability management as well as a reduction in liquidity risks.

Table 1 – Analysis of Liquidity Indicators of Commercial Banks

| Indicators | 2020 year | 2021 year | 2022 year | 2023 year | 2024 year |
|-----------------------------------|-----------|-----------|-----------|-----------|-----------|
| Total Liquidity (%) | 67.4 | 99.3 | 104.1 | 109.2 | 112.5 |
| Current Liquidity (%) | 78.5 | 85.7 | 87.5 | 90.8 | 92.4 |
| Coverage Ratio of Obligations (%) | 65.3 | 80.2 | 83.1 | 85.6 | 88.3 |
| Primary Liquidity Ratio (%) | 40.2 | 48.6 | 50.3 | 52.1 | 54.7 |

Current liquidity, measured as the ratio of liquid assets to short-term liabilities, rose from 78.5% in 2020 to 92.4% by 2024. This improvement highlights the banks' sufficient reserves to cover short-term obligations and is attributed to strengthened oversight and the refinement of liquidity management strategies.

The debt coverage ratio, which measures a bank's ability to meet its debt obligations, increased from 65.3% in 2020 to 88.3% in 2024. This improvement reflects enhanced financial stability and operational efficiency, largely driven by the growth of bank capital and assets. Similarly, the first-tier liquidity ratio, an indicator of a bank's ability to mobilize funds in the short term, rose from 40.2% in 2020 to 54.7% in 2024. This growth signifies increased resilience to external shocks and improved approaches to managing liquid reserves.

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The overall positive dynamics of these indicators underscore the effectiveness of liquidity management and the financial stability of the banking system. Enhanced liquidity has strengthened banks' resilience to market risks and improved their ability to meet obligations to clients and creditors in a timely manner. These developments highlight the efficiency of measures implemented to manage assets and liabilities.

Moreover, the banking sector's adaptability to challenges such as the pandemic and global economic instability has significantly improved. Strengthened liquidity provides a solid foundation for the banking sector's development and its synergy with the real economy. This, in turn, serves as a crucial factor in ensuring the stability and fostering the growth of Uzbekistan's economy.

Table 2 – Analysis of the Profitability of Uzbekistan's Banking System (%)

| Indicators | 2020 year | 2021 year | 2022 year | 2023 year | 2024 year |
|--|-----------|-----------|-----------|-----------|-----------|
| Profitability of the banking sector | 27.5 | 21.4 | 25.8 | 28.0 | 30.2 |
| Profitability of banking sector assets | 2.2 | 2.9 | 3.2 | 3.5 | 3.8 |
| Recapitalization of the banking sector | 16.7 | 15.9 | 16.2 | 16.8 | 17.1 |

An analysis of the profitability of Uzbekistan's banking system during 2020–2024 reveals positive dynamics in key indicators. Over this period, the profitability of the banking sector increased from 27.5% in 2020 to 30.2% in 2024. This growth reflects an improvement in overall financial returns and the achievement of economic stability. The increase is primarily attributed to enhanced efficiency in financial management, the expansion of loan portfolios, and growth in investments.

The return on assets (ROA) in the banking sector also demonstrated positive trends, rising from 2.2% in 2020 to 3.8% in 2024. This improvement highlights banks' effective utilization of their assets and their increased profit-generating potential. The growth in asset profitability indicates the successful implementation of lending strategies by the banking sector. The

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capital adequacy ratio also experienced growth, increasing from 16.7% in 2020 to 17.1% in 2024. This indicator plays a critical role in ensuring the financial security and stability of the banking sector. The rise in capital adequacy enhances banks' capacity to expand lending and investments. The sustained growth of this ratio underscores its importance as a fundamental factor for the long-term development of the banking system.

Table 3 – Financial Indicators of Commercial Banks in the Republic of Uzbekistan (2020–2024) [6]

| N ^o | Indicators | 2020 year | 2021 year | 2022 year | 2023 year | 2024 year |
|----------------|--|-----------|-----------|-----------|-----------|-----------|
| 1 | GDP (billion soums) | 511838.1 | 602197.0 | 734588.0 | 850103.0 | 950018.0 |
| 2 | Bank assets (billion soums) | 272726.7 | 366121.1 | 444922.0 | 501387.0 | 652157.0 |
| | Bank assets as a share of GDP (%) | 53.3 | 60.8 | 60.6 | 58.8 | 68.6 |
| 3 | Bank capital (billion soums) | 51030.6 | 58351.3 | 70918.0 | 80779.0 | 97079.0 |
| | Share of bank capital in GDP (%) | 10.0 | 9.7 | 9.7 | 9.4 | 10.2 |
| 4 | Commercial bank deposits (billion soums) | 91009.0 | 114746.9 | 156190.0 | 180104.0 | 241687.0 |
| | Bank deposits share in GDP (%) | 17.8 | 19.1 | 21.3 | 21.2 | 25.4 |
| 5 | Credit allocations (billion soums) | 211581.0 | 276974.8 | 326386.0 | 360315.0 | 471406.0 |
| | Share of bank loans in GDP (%) | 41.3 | 46.0 | 44.4 | 42.4 | 49.6 |

During the period from 2020 to 2024, Uzbekistan's GDP experienced substantial growth, rising from 511,838.1 billion UZS in 2020 to 950,018 billion UZS in 2024, reflecting sustained economic growth. Commercial banks played a critical role in this expansion, as the share of bank assets in GDP increased from 53.3% in 2020 to 68.6% in 2024, indicating the growing involvement of banks in the national economy. The absolute volume of bank assets also showed significant growth, increasing from 272,726.7 billion UZS to 652,157 billion UZS over the same period. This increase signifies



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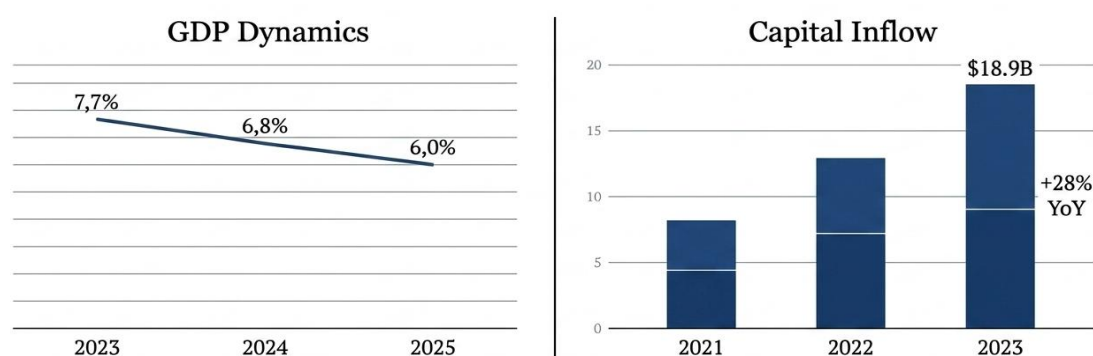
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not only the expansion of banking activities but also a strengthening of financial stability. The rising ratio of assets to GDP highlights the increasing reliance of the economy on the banking sector. The growth in bank capital followed a positive trend as well. Bank capital rose from 51,030.6 billion UZS in 2020 to 97,079 billion UZS in 2024, with its share in GDP slightly increasing to 10.2% by 2024. This growth enhanced the financial stability of banks and improved their adaptability to economic conditions.



Commercial banks also achieved notable progress in the deposit sector. Deposits increased from 91,009 billion UZS in 2020 to 241,687 billion UZS in 2024, with their share in GDP rising from 17.8% to 25.4%. This growth reflects a strengthening trust in the banking system among individuals and businesses. The volume of bank loans grew significantly during this period, from 211,581 billion UZS in 2020 to 471,406 billion UZS in 2024. The share of loans in GDP increased from 41.3% to 49.6%, underscoring the vital role of commercial banks in supporting the real economy and fostering economic development.

Conclusion

In 2026, the strategic importance of Uzbekistan's banking sector extends beyond its traditional integrative role. The sector increasingly serves as a mechanism for economic resilience, supporting national development amid economic challenges in the Middle East, slowing growth among key trading partners, and heightened geoeconomic uncertainty. Strengthening risk management, diversification of funding sources, digital transformation, and deeper integration with international financial markets will be critical factors for sustaining long-term economic growth and financial stability.

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Simultaneously, the increasing ratios of both assets and loans to GDP suggest a growing dominance of the financial sector in the economy. This trend underscores the need for effective allocation of financial resources to real economic sectors. The growth in bank capital and deposits has also contributed to maintaining liquidity. The rising share of deposits in GDP indicates increased interest and confidence in the banking system among households and businesses.

Uzbekistan's commercial banks played a pivotal role in expanding the financial base of the economy and ensuring economic stability during 2020–2024. However, ensuring the effective allocation of financial resources to the real economy remains a critical task. To achieve this, it is essential to enhance the adoption of innovative technologies and improve the sector's adaptability to international financial standards. ¹

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