
ASSESSING THE COMPLIANCE OF UZBEKISTAN'S BANKING SUPERVISION SYSTEM WITH THE BASEL CORE PRINCIPLES

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Abstract

The article analyzes the compliance of the banking supervision system of the Central Bank of Uzbekistan with the 29 Basel Core Principles for Effective Banking Supervision, based on the results of the Financial Sector Assessment Program (FSAP, 2025) conducted by the International Monetary Fund and the World Bank. Through statistical grouping of the assessment results for each principle and the calculation of an author-designed weighted compliance index, the overall quality level of the banking supervision system is quantitatively assessed. The results show that, of the 29 principles, only 4 (13.8%) were rated Fully Compliant, 16 (55.2%) Largely Compliant, and 9 (31.0%) Materially Non-Compliant; the author's weighted compliance index amounts to 62.9 points out of 100. Supervisory independence, capital adequacy, and consolidated supervision were identified as the weakest areas. The article concludes with recommendations for improving the quality of supervision.

Keywords: banking supervision, Basel Core Principles, FSAP, financial stability, capital adequacy, central bank independence, Uzbekistan.

Introduction

Effective banking supervision is one of the fundamental institutional conditions for ensuring financial stability. In international practice, the most widely used methodological tool for assessing the quality of banking supervision systems is the Basel Committee on Banking Supervision's 29 Core Principles for Effective Banking Supervision (BCP). These principles cover such areas as the independence of the supervisory authority, licensing procedures, prudential requirements, risk management, and corrective measures.

In July 2025, the International Monetary Fund and the World Bank conducted the first full BCP assessment of Uzbekistan as part of the Financial Sector Assessment Program (FSAP). This assessment provides a unique and new database that allows for an objective identification of the strengths and weaknesses of the country's banking supervision system. The purpose of this article is to conduct a statistical-mathematical analysis of the FSAP assessment results, to calculate a summary quality indicator for the banking supervision system, and to identify directions for enhancing supervisory effectiveness. [1]

Analysis and results

The study statistically groups the assessment results (grades) for the 29 BCP principles presented in the FSAP report. The four-level rating scale used in international practice was applied: Fully Compliant (C), Largely Compliant (LC), Materially Non-Compliant (MNC), and Non-Compliant (NC). Based on the grouped results, the author developed a Weighted Compliance Index (WCI), assigning the following point weight to each rating level: C = 100, LC = 75, MNC = 25, NC = 0. The index is calculated using the following formula: [2]

$$WCI = \Sigma(n_i \times b_i) / N$$

where: n_i — number of principles at rating level i ; b_i — point weight of level i ; N — total number of principles (29).

According to the FSAP assessment results, Uzbekistan's banking supervision system was not rated “Non-Compliant” (NC) on any of the 29 Basel Core Principles, which attests to the existence of the system's basic institutional foundation. At the same time, only 4 principles (13.8%) were rated “Fully Compliant,” covering permissible activities, country and transfer risk, internal control and audit, and home-host relationships. Most of the principles — 16 (55.2%) — were rated “Largely Compliant,” including licensing criteria, corporate governance, and credit and liquidity risk management (Table 1, Chart 1).

Table 1. Distribution of BCP principles by compliance level. [3]

Compliance level	Number	Illustrative principles
Fully Compliant (C)	4	Permissible activities; internal control and audit; country and transfer risk
Largely Compliant (LC)	16	Licensing criteria; corporate governance; credit risk; liquidity risk
Materially Non-Compliant (MNC)	9	Supervisory independence; capital adequacy; consolidated supervision; market risk
Non-Compliant (NC)	0	—
Total	29	—

Chart 1. Distribution of Uzbekistan's compliance with the 29 Basel Core Principles (FSAP, 2025)

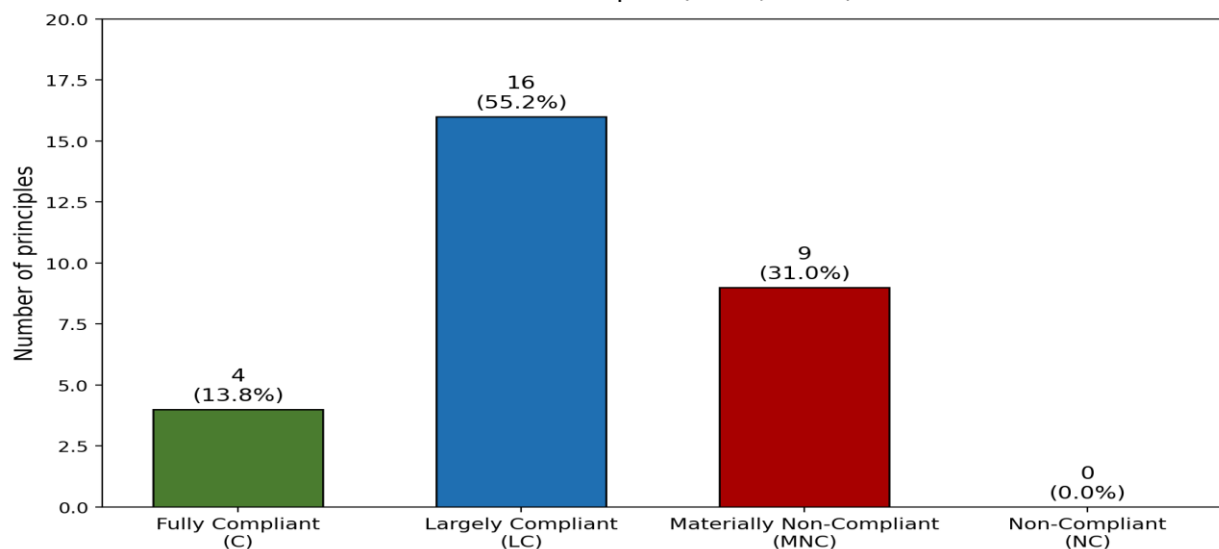


Chart 1: Distribution of Uzbekistan's compliance with the 29 Basel Core Principles (FSAP, 2025). [4]

A particularly noteworthy point is that 9 principles (31.0%) were rated “Materially Non-Compliant” — the level immediately above the lowest, NC, in the FSAP methodology — indicating serious institutional gaps. These principles include: supervisory independence, accountability and resourcing; supervisory techniques and tools; supervisory reporting; consolidated supervision; capital adequacy; problem assets and provisioning; market risk; interest rate risk; and operational risk.

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The weighted compliance index calculated using the formula above was determined as follows:

$$WCI = (4 \times 100 + 16 \times 75 + 9 \times 25 + 0 \times 0) / 29 = 1825 / 29 \approx 62.9 \text{ points (out of 100)}$$

This indicator shows that the overall quality level of Uzbekistan's banking supervision system falls in the range of “above average, but not yet fully mature.” At the same time, 86.2% of the principles (25 out of 29) fall short of full compliance, which points to a broad scope for reform in aligning the supervision system with international standards: [5]

$$\text{Share of principles that are not fully compliant} = (16 + 9 + 0) / 29 \times 100\% \approx 86.2\%$$

The most important finding is the “Materially Non-Compliant” rating given to the capital adequacy principle. FSAP assessors noted that the current capital requirements are not calibrated to banks' individual risk profiles, which limits the ability to identify and prevent systemic risks at an early stage. At the same time, the shortcomings identified in the independence of the supervisory authority — in particular, the requirement for the Central Bank to coordinate normative documents with the Chamber of Commerce and Industry and the Ministry of Justice — may negatively affect the speed and independence of practical supervisory decision-making.

The results of the analysis make it possible to identify the following priority reform directions for Uzbekistan's banking supervision system:

- Strengthening the Central Bank's operational independence in the area of prudential policy, in particular reconsidering the mandatory coordination requirement with external organizations when approving normative documents.
- Aligning capital requirements with banks' individual risk profiles (a risk-based capital framework), including the introduction of additional capital buffers in line with the Basel II/III standards.
- Developing a consolidated supervision system, forming a unified supervisory mechanism over banking groups and their non-bank subsidiary units.
- Improving the regulatory and legal framework for managing market and interest-rate risk, and aligning stress-testing methodologies with international practice.

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- Fully aligning the rules for classifying and provisioning problem assets with International Financial Reporting Standards (IFRS 9).

CONCLUSION

The results of the study show that Uzbekistan's banking supervision system has achieved significant institutional progress in recent years, but has not yet reached full maturity in terms of complete compliance with international standards. The weighted compliance index standing at 62.9 points and 86.2% of the principles being less than fully compliant confirm the need for systemic, phased reforms to improve the quality of banking supervision. Addressing the shortcomings in supervisory independence and capital adequacy in particular remains a priority task for strengthening financial stability.

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