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THE BANKING SYSTEM OF UZBEKISTAN FROM 1991 TO 2025: FROM INDEPENDENCE TO DIGITAL TRANSFORMATION

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Abstract: *This article analyzes the development, reform, and digital transformation of Uzbekistan's banking system during the period 1991–2025. It highlights the role of the banking sector in ensuring economic stability, the expansion of financial services for the population and entrepreneurs, and the outcomes of implementing digital technologies.*

Keywords: *Banking system, national currency, People's Bank, settlement mechanism, International Monetary Fund, consumer credit, digital transformation, electronic payment.*

INTRODUCTION

Since the early years of independence, the banking system of the Republic of Uzbekistan has become an integral part of the country's economic life. The economic reforms implemented since 1991, the formation of the financial market, and the introduction of the national currency have laid a solid foundation for the development of the banking sector.

Over the years, the banking system has evolved not only as a network of credit and financial institutions but also as a key financial mechanism actively contributing to economic growth, supporting entrepreneurship, and improving the living standards of the population. In particular, in the last decade, the widespread introduction of digital technologies, integration into international financial systems, and the universalization of banking services have brought the sector to a new stage of development.

ANALYSIS

In 1991, a number of banks began to take shape. Operating under the changing conditions of Uzbekistan's developing economy, they gradually adopted modern working methods and expanded their functions. The years 1991-1992 marked a real turning point in the understanding of banking activities. The adoption of the Law of the Republic of Uzbekistan “On Banks and Banking Activities” laid the foundation for the formation of a two-tier banking system and assigned new functions to the Central Bank of Uzbekistan. The main tasks entrusted to it were the regulation of money circulation, the establishment of the commercial banking system, and the formation of a national payment system. Financing for various sectors of the economy was now to be carried out by newly established, specialized commercial banks operating based on modern principles and standards.

Banking reforms continued throughout **1993-1994**. The introduction of the national currency - the som - on July 1, 1994, played a vital role in the formation of an independent banking system and, more broadly, in the development of Uzbekistan's economy. This event symbolized the Central Bank's full independence in its operations and signified that it could now effectively regulate the national monetary system using market-based instruments. From that moment onward, the Central Bank's activities in implementing monetary policy, managing currency operations, supervising banking activities, and creating an efficient payment system became fully directed toward ensuring the stability of the national currency.

The year **1995** stands out as a period of improvement in banking legislation. A historically important document, the Law “On the Central Bank of the Republic of Uzbekistan,” not only enriched the legal foundation of the banking system but also clearly defined the new, distinct status, powers, and main goals and objectives of the Central Bank of the Republic of Uzbekistan. At the same time, conditions were created to improve the quality of services provided to the population and to establish a competitive environment in the credit and deposit markets. After the rule limiting the amount of public savings attracted to the capital of banks was abolished, the capabilities of banking institutions expanded significantly, and competition intensified. The results became evident immediately. While at the beginning of 1994, 98.5 percent of household savings were concentrated in the Savings Bank (now the People's Bank) and 1.5 percent in other banks, by the end of that year the share of other commercial banks had increased to 12.8 percent. Today, this figure has reached 83.2 percent.

In 1996, the adoption of the Law of the Republic of Uzbekistan “On Banks and Banking Activity” specified the legal framework for the activities of secondary-level (commercial) banks.

It should be noted that in the development of these two fundamental documents - the Laws “On the Central Bank of the Republic of Uzbekistan” and “On Banks and Banking Activity” - the experience of countries with developed financial systems was taken into account. These laws, as well as the Law “On Joint-Stock Companies and the Protection of Shareholders' Rights,” created favorable legal conditions for the establishment of private and joint-stock commercial banks.

Two main factors significantly influenced the development of the banking system during this period. The first is that as a result of the reforms, in 1996 the Central Bank of the Republic of Uzbekistan became a fully authorized body for monetary management and banking supervision. The second is that the Law “On Banks and Banking Activity” established a clear and solid legal basis for the operation of secondary-level commercial banks, consolidating the principles of forming universal commercial banks through asset diversification and attracting foreign capital.

During this period, specialized credit and financial institutions serving specific sectors of the economy were established. Such specialization was associated with the need to finance certain branches of the national economy, such as agriculture, the automotive industry, and aviation. In the future, specialized banks will expand their operations and client base in accordance with the new stage of the country's economic

development and the demands of the business environment.

1997, the process of forming the Central Bank of the Republic of Uzbekistan as a governing and supervisory body for the banking sector continued. The legislative framework related to the banking system was qualitatively updated and harmonized with international banking practices. One of the strategic directions of reform during this year was to encourage the inflow of private capital into the banking sector.

This process accelerated after the issuance of the Presidential Decree of the Republic of Uzbekistan “On Measures to Encourage the Establishment of Private Commercial Banks” in 1997. The decree provided for incentives to establish banks with at least a 50 percent share owned by individuals. The year 1997 is also significant in the history of banking system development because it marked the beginning of the introduction of information systems into banking operations. Until that time, all settlements within the republic had been carried out throughout the entire working day. Starting from March 1997, new software was introduced, and all settlements began to be processed automatically. This made it possible to carry out payments outside the republic within 15 minutes, and in remote areas of Tashkent in just 3 minutes.

At that time, a settlement mechanism was developed and a modern system of interbank electronic payments was introduced. Banks were given a unique opportunity to purchase computer and telecommunication equipment and to equip their departments with it. Considering that they were directing funds to modernize the equipment necessary for their activities, they were exempted from a number of tax payments.

Thus, new consumers of financial and economic information - domestic and foreign investors - emerged.

In 1998, the necessary measures were implemented for the republic’s banks to operate in accordance with the Basel recommendations. Based on the recommendations of the Basel Committee on Banking Supervision and international practices, a set of regulatory documents was developed to regulate the activities of commercial banks within the framework of international financial reporting standards. To ensure the financial stability of commercial banks, principles were applied to identify existing problems in their balance sheets in advance and to take preventive measures before a decline in liquidity or depletion of capital occurred.

In 1999-2000, the currency policy was further liberalized, and a mechanism for trading foreign currencies in the over-the-counter market was introduced.

This mechanism provides for authorized banks to purchase foreign currency from their clients at a free exchange rate based on supply and demand, under contractual agreements.

Starting from July 1, **2001**, small business enterprises gained the opportunity to carry out exports of their own products (goods, works, and services) in cash foreign currency by transferring a portion of foreign exchange earnings to their accounts through bank institutions in accordance with the established procedure. The government of the Republic of Uzbekistan took an important step toward promoting small businesses and private entrepreneurship, as well as expanding their participation

in foreign economic activities. In the same year, a Unified Stabilization Fund in freely convertible currency was established. This, in turn, served as an important tool for the further development of the over-the-counter foreign exchange market in Uzbekistan.

During this period, cooperation between the banking system and the private sector developed significantly. Important factors contributing to this cooperation included the continuous improvement in the quality of banking services, the emergence of a competitive environment among banks, and the processes associated with supporting entrepreneurship in the country. During this time, banks strengthened their lending policies, began to study customer requests more carefully, and bank employees developed the ability to respond quickly to the needs and demands of clients.

In 2002, a reliable and effective mechanism for protecting public deposits in banks was established. Within the framework of the Law of the Republic of Uzbekistan “On Guarantees for the Protection of Citizens’ Deposits in Banks,” the Deposit Guarantee Fund for Citizens was created. Except for the State Commercial People’s Bank, all banks operating in the republic became members of this fund. Reliability, high-quality service, and partnership relations with all clients gradually became the main principles of the activities of banks in Uzbekistan.

The institutional foundations of the banking system’s operations were improved. Program documents adopted with the aim of liberalizing and reforming the banking sector predetermined the increase in its efficiency. These documents were based on the principles of a systematic and gradual liberalization process in banking activities. Adherence to these principles made it possible to further strengthen public confidence in the country’s banks. Such an approach, undoubtedly, represented a great achievement in the formation of a stable and reliable banking system.

The years **2003-2004** marked a period of further liberalization and deepening of reforms, as well as the development of the banking system in our country.

During this period, the goal was to strengthen public confidence in the banking system and to make banks a financial backbone for the ongoing transformations in the republic. The success of this goal was expected to play a significant role in the future development of banks. The process of corporatizing enterprises and changing their ownership forms accelerated. Banks, guided by the requirements of the new stage of the country’s economic development, continued to refine their strategies in accordance with their development concepts. Expanding the resource base and increasing capitalization was achieved through diversification of operations, attracting funds from new shareholders, and developing new banking products and instruments based on IT technologies.

Factors related to continuing the liberalization of the foreign exchange market and creating the necessary conditions for the convertibility of the som in current international operations also directly influenced bank activities. For example, on October 15, 2003, the Republic of Uzbekistan accepted the obligations under Article VIII of the International Monetary Fund Agreement. As a result, enterprises gained the opportunity to carry out conversions for current operations. Uzbekistan’s achievement in accomplishing this goal relying on its own resources rather than attracting foreign

capital received high recognition. These measures closely supported the expansion of activities by local entrepreneurs using the national currency's convertibility.

The years **2005-2006** were marked by an increase in the capitalization of banks in our country and their more active participation in investment processes and economic-structural transformations. At that time, the government viewed the exemption of banks from profit (income) tax as another incentive for increasing bank activity. Furthermore, according to approved state programs, the expenses of commercial banks related to establishing mini-banks were also exempted from the tax base.

Thus, the main focus was on strengthening monetary circulation and implementing specific measures to stabilize the national currency and its exchange rate. This generated strong public motivation and further increased trust in banks. Positive developments associated with citizens opening deposit accounts in banks became more widespread. The volume of bank deposits grew, and a banking services market began to take shape. Notably, new types of services, such as leasing, began to appear among bank products.

In **2007**, the period of development for mortgage lending began. This new form of banking service was immediately positively received by the local population. This resource, aimed at socially protecting all segments of the population, especially young people, was strengthened through the Laws of the Republic of Uzbekistan “On Consumer Credit” and “On Mortgage.”

The Law of the Republic of Uzbekistan “On Consumer Credit” is significant because it is aimed at protecting the rights and interests of consumers. This law helps expand the population's opportunities to improve housing and living conditions and, accordingly, contributes to a significant increase in the volume of consumer lending in banks.

During **2008-2009**, the development of retail banking products for the population and business entities became an important direction of banking activity. In this area, banks conducted their operations based on the “golden” principle of global practice. That is, the attractiveness of services provided to the population was developed in proportion to the broad opportunities for entrepreneurs to use credit. Continued reforms further strengthened banking activities within the framework of previously adopted laws “On Consumer Credit” and “On Mortgage,” which play an important role in improving living standards.

Uzbek commercial banks, responding to new developments both within the country and in the global banking community, expanded their range of services, introduced new banking products to the market, and actively began implementing international standards of financial institution operations.

In **2010**, Uzbek commercial banks began to stand out primarily as specialized credit institutions. This was important both for attracting temporarily idle funds of the economy and for meeting the financial needs of enterprises, private entrepreneurs, and the population using the attracted funds.

According to foreign and local experts, in recent years there has been a

noticeable trend in the republic toward moving away from specialization and deepening the universalization of banking activities. This, in turn, determines the content of banking operations and the essence of credit relations in advance.

The years **2011-2015** marked a period of stabilizing the banking system and strengthening its financial foundations. Commercial banks actively worked on expanding their capital base, improving the quality of their loan portfolios, and introducing new technologies in customer service. During this period, the volume of preferential loans increased through programs supporting small businesses and private entrepreneurship. As a result, small businesses became an important driving force in the country's economy.

The years **2016-2020** were a period of deep reforms in the banking sector. At the initiative of the President, measures were implemented to liberalize the banking system, ensure openness for foreign investors, and strengthen cooperation with international financial institutions. New technologies based on the “digital economy” concept - such as internet banking, mobile applications, and electronic payment systems - were widely introduced in banks. This allowed the provision of convenient, fast, and transparent services to the population.

In **2018**, the “Banking System Reform Strategy until 2020” was adopted to further improve the banking sector. Based on this strategy, efforts were made to strengthen the financial position of banks, improve risk management systems, and implement international audit standards.

The years **2021-2025** were marked as a period of digital transformation and universalization of the banking system in Uzbekistan. Within the framework of the “Digital Uzbekistan - 2030” strategy, measures were taken to fully digitize banking services and expand remote services for the population and entrepreneurs. Integration of the “Humo” and “Uzcard” systems, as well as the widespread use of international Visa, Mastercard, and UnionPay cards, brought the payment systems closer to global standards.

For entrepreneurs, online lending systems, unsecured microcredits, and preferential financial programs for women and youth were introduced. Mortgage lending mechanisms were also simplified, providing broad opportunities to improve housing conditions for the population.

During **2023-2025**, banks began organizing their activities based on the principle of universalization. Commercial banks now offer not only credit and deposit operations but also investment, insurance, electronic payment, and even crypto-asset-related services.

The number of banks with foreign capital participation also increased. Their entry strengthened competition in the domestic market and stimulated improvements in service quality. International experience, modern management methods, and digital security standards were widely applied in the banking system.

Overall, from 2011 to 2025, the banking system of Uzbekistan developed step by step based on principles of modernization, digital transformation, and transparency. Today, the country's banking sector operates as an integral part of the international

financial system and plays an important role in economic growth, supporting entrepreneurship, and improving the well-being of the population.

CONCLUSION

In conclusion, from 1991 to 2025, the banking system of Uzbekistan underwent gradual modernization, evolving into a digital and innovative system that meets international standards.

Today, commercial banks offer not only credit and deposit services but also a wide range of financial services, including investment, electronic payments, mortgage lending, and financing for startups.

This process contributes to improving the business environment, enhancing the well-being of the population, and ensuring sustainable economic growth. Thus, from 1991 to 2025, the banking system of Uzbekistan has become one of the key pillars of the national economy.

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