

## Development of the Banking System of the Republic of Uzbekistan

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**Abstract:** the article is devoted to the development of the banking system of the Republic of Uzbekistan. Banks are centers where business partnerships mostly start and end. The health of the economy depends to a decisive extent on the accurate and competent activity of banks. Banks provide financing for all areas of business, production and non-production areas, management areas and fill the budget with the necessary funds. Without a developed network of commercial banks, the desire to create a real and efficient market mechanism remains only a wish.

**Keywords:** banking, two-tier banking system, efficient market mechanism.

The banking sector is in dire need of continued reform. And finally, the Decree of the President of the Republic of Uzbekistan “On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020–2025” was adopted.

The strategy is aimed at solving such systemic problems as the high share of state presence in the banking sector, the insufficient quality of management and risk management in banks with state participation, and the low level of financial intermediation in the economy.

The red thread of the decree is the creation of a healthy competitive environment in the financial markets and the commercialization of the banking system. In particular, the need to create equal competitive conditions, lending exclusively on a market basis, the gradual abolition of non-core functions of banks, the reduction of the state share in the banking sector, as well as the creation of favorable conditions for the formation and development of non-bank credit organizations is emphasized.

A separate paragraph prohibits the heads of ministries, departments and local authorities from interfering in the activities of banks, including the management of business risks associated with the formation of a loan portfolio and bank assets.

Key targets include:

- Increasing the share of assets of banks without a state share in the total assets of the banking system from the current 15 percent to 60 percent by 2025. (Until the Strategy itself and the Roadmap are published, it is impossible to understand how this super ambitious task will be achieved).
- Increasing the share of bank liabilities to the private sector in total liabilities from the current 28 percent to 70 percent by the end of 2025.
- Attracting by 2025 at least three strategic foreign investors with appropriate experience, knowledge and reputation to the capital of at least three banks with a state share.

The Central Bank acts as the central link not only in the banking system, but also in the payment system, organizing its work and performing a control function. The Central Bank is the guarantor in ensuring the uninterrupted and efficient functioning of the national payment system. In the modern economy, where lending plays a significant role, banks, when issuing loans, inevitably incur losses associated with them. In order to avoid default by the borrower, banks use various methods and strategies to reduce the likelihood of credit risks.

According to the "Rules for conducting cash transactions in the national economy" of the Republic of Uzbekistan, all enterprises, organizations and institutions, regardless of the organizational and legal form, must keep their funds in banking institutions, make settlements for their obligations with other enterprises in a non-cash manner through banking institutions. As a result, the need for banking services is certainly growing at present. The activity of banks of the Republic of Uzbekistan is based on the Law "On banks and banking activities".

A bank is a legal entity that is a commercial organization and carries out a combination of the following types of activities, defined as banking activities:

- ✓ accepting deposits from legal entities and individuals and using the funds received for lending or investing at your own peril and risk;
- ✓ making payments. Banks are financial institutions that accumulate temporarily free funds and provide them for a certain fee (interest) in the form of loans (credits) for temporary use to business entities on the principles of repayment, urgency and security.

In order to improve the quality of customer service, the bank needs to develop alternative sales channels, as well as to constantly work aimed at expanding the range of services in self-service machines and ATMs. The development of goods and services in the conditions of the modern market is significantly influenced by the effective performance of employees of their production functions.

Over the years of independence, Uzbekistan has been carrying out targeted and gradual reforms that are aimed at:

- ✓ Increasing the stability and liquidity of the banking system;
- ✓ Attraction of additional investments in banking capital;
- ✓ Further development of banking activity in accordance with international standards;
- ✓ Empowerment of business entities, etc.

The peculiarities of organizing and accounting for corporate lending operations are the most interesting topic for analysis, since in this case banks strive to establish long-term partnerships with each client, predict the development of customer needs, the emergence of new areas of banking

business, and conduct regular marketing research. The processes taking place in the corporate lending market are exclusive.

While in the consumer loan market these conditions are usually public and standard, in the corporate loan market, with the unconditional presence of internal banking norms, the main parameters and schemes for granting loans vary and are discussed. As a result of these measures, a two-tier banking system was created. It should also be noted that every year the number of individuals and legal entities using bank loans is increasing, and, consequently, healthy competition between banks is developing.

Here, of course, it is important to note that the solid basis for the results achieved is the legal framework created in the banking and financial sector: the Law of the Republic of Uzbekistan "On the Central Bank", the Law of the Republic of Uzbekistan "On Banks and Banking", the Decree of the President of the Republic of Uzbekistan "On measures to stimulate the creation of private commercial banks, etc.

### Literature

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