

## ANALYSIS OF THE MAIN DIRECTIONS OF BANKING SERVICES DEVELOPMENT IN UZBEKISTAN

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**Annotation:** *This article provides a comprehensive analysis of current directions of banking services development in Uzbekistan. The research substantiates the importance of digital transformations in modern banking practice, introduction of innovative products and customer-oriented services. The purpose is to develop practical proposals aimed at ensuring the sustainable growth of the national banking system.*

**Kalit so'zlar:** *Banking services; digital transformation; innovation; customer orientation; financial stability; inclusivity; Banking system of Uzbekistan*

**Аннотация:** *В данной статье проведен комплексный анализ актуальных направлений развития банковских услуг в Узбекистане. Исследование обосновывает значение цифровых трансформаций, внедрения инновационных продуктов и клиентоориентированных услуг в современной банковской практике. Цель — разработка практических рекомендаций, направленных на обеспечение устойчивого роста национальной банковской системы.*

**Annotation:** *This article provides a comprehensive analysis of the current directions for developing banking services in Uzbekistan. The research substantiates the importance of digital transformations, implementation of innovative products, and customer-oriented services in modern banking practice. The aim is to develop practical recommendations focused on ensuring the sustainable growth of the national banking system.*

### LOG IN

In the context of globalization and digitalization of the world economy, the banking system plays an important role as a driver of economic stability of the country. The large-scale reforms realizing in the Republic of Uzbekistan in recent years, namely, liberalization of economy and attracting foreign investment, give new impetus to the development of banking sector. The relevance of banking service sector is determined by the need of modernization of banking services market, introduction of innovative technologies and improvement of quality of services. The purpose of the research is to elaborate theoretically analysis of the main directions of banking services development in Uzbekistan, to identify existing problems and to develop effective proposals for their solution. To achieve this goal, the tasks set : assessing the state of the banking services market; study of trends in the development of digital banking;



consideration of opportunities to improve the inclusiveness of banking services analysis of the ways of improvement of the risk management system at the banks.

According to the historical analysis of the problem, banking sector of Uzbekistan went through a number of evolutionary stages. While the first years of independence were dominated mainly by the monopoly of state-owned banks [Abulkasymov 2004: 125], then a competitive environment began to take shape with the emergence of private banks and banks with the participation of foreign capital. In the period of recent reforms, a strategy for reforming the banking system was adopted, which allowed new investments and technologies to enter the sector [Akhmedov 2020: 45]. In particular, in 2017-2021, significant changes were made in the banking system, including a lot of attention was paid to privatization of state-owned banks, accelerating digitalization and raising the level of financial inclusiveness [Decree of the President of the Republic of Uzbekistan, 2020].

An analysis of the literature shows that the works of classical economists such as I. Fisher [Fisher 1911], J.M. Keynes [Keynes 1936], M. Friedman [Friedman 1969] are of fundamental importance on the development of the banking system. Contemporary research, on the other hand, analyzes digital transformation, fintech technologies, and the inclusiveness of banking services [Mishkin 2019: 78]. In Uzbekistan, local scientists such as M. Shermukhamedov, A. Toxirov, A. Vahobov covered the issues of reform and development of the banking system [Shermukhamedov 2018; Toxirov 2017]. However, in the conditions of current globalization and digitalization the lack of comprehensive, systematic analysis of banking services development and practical proposals determine the novelty of this research.

### **BASIC SECTION**

Development of banking services in Uzbekistan in several main areas is real. These directions are being formed in tandem with the dynamic needs of the national economy and global trends. The research methodology includes qualitative and quantitative approaches. Experts of the field were interviewed, data from the Central Bank, reports of commercial banks and analytical materials of international organizations were studied. Based on statistical data and economic models, the situation was analyzed and forecasts were developed.

#### **1. Development of digital banking and introduction of innovation.**

Digitalization processes in the banking system of Uzbekistan are dynamically developing. Increasingly, mobile banking applications, Internet banking services and remote banking services are increasingly popular among the population and businesses. According to the Central Bank, by the end of 2023, the number of mobile app users increased dramatically [Central Bank of the Republic of Uzbekistan, 2024]. This trend not only creates convenience for customers, but also helps to reduce operating expenses of banks. The integration of artificial intelligence (AI), blockchain technologies and big data (Big Data) analytics into banking operations makes it



possible to assess credit risks, strengthen security and create products that are tailored to the individual needs of customers. For example, the emergence of digital banks and payment applications such as Anorbank and Orange testifies to progressive movements in this direction. However, there are cybersecurity threats and challenges with effective access to services for segments of the population that lack digital skills.

#### 2. Improving the inclusiveness of banking services.

Providing access to financial services is particularly important in rural areas and for small businesses. Attention is paid to increase financial inclusion through expansion of the network of bank branches, introduction of mobile ATMs and development of distance service channels in Uzbekistan. Micro-lending programs and special financial products for farmers help expand access to financial services [Karaev, Nazarov 2019: 67]. Increasing inclusivity is an important factor in stimulating economic development and improving the living standards of the population. Nevertheless, inadequate levels of financial literacy and weak infrastructure in some remote areas remain an obstacle to the full inclusiveness of banking services. For example, some rural residents still have difficulties with using cashless payment methods, which indicates that modern payment systems have not fully reached the population.

#### 3. Strengthening and diversification of the bank's capital.

The stability of the banking system is directly related to the level of its capitalization. Uzbekistan has begun the process of privatization of state-owned banks, which provides to increase the bank's capital by attracting foreign and private investment [Decree of the President of the Republic of Uzbekistan, 2020]. Diversification of capital and penetration of foreign banks into the market serve to strengthen competition, increase exchange rate stability and improve investment climate. Adjustment of capital adequacy ratings to international Basel standards improves the reliability of the banking system. Currently, several state-owned banks, including large financial institutions "Ipotekabank", are in the process of privatization aimed at attracting foreign investors.

#### 4. Improvement of lending policy and risk management.

Due to the increasing volume of lending to the economy, it is also important to formulate an effective credit risk management system. Improvement of lending policy should ensure on the one hand, it promotes entrepreneurship, and on the other hand, ensures that the banks' assets are safe. The introduction of new lending products, including targeted loans for small and medium-sized businesses and financing of green projects, contribute to innovative development. In risk assessment, attention is paid to the use of modern models, diversification of the loan portfolio and reduction of the share of non-real assets [Kurbanov 2021: 112]. For example, new regulations adopted by the Central Bank are aimed at strengthening capital adequacy requirements in assessing credit risks in accordance with the Basel III principles [Central Bank of the Republic of Uzbekistan, 2023].





#### 5. Developing the capacity of personnel and developing financial literacy.

Qualified personnel and financial literacy of population are crucial for the sustainable development of the banking system. It is expedient to systematically improve the knowledge and skills of Bank employees on innovative technologies and new financial products. In cooperation with higher education institutions and training centers, it is necessary to improve training programs for specialists in the banking sector [Nurmatov 2022: 89]. It is urgent to strengthen advocacy activities to increase the financial literacy of the population, especially to explain security measures in the use of digital services. This, in turn, helps prevent the possibility of illegal financial transactions and fraud.

The analysis and interpretation of the results shows that banking sector of Uzbekistan is showing significant success in the process of transformation. In particular, as a result of the expansion of digital services, interbank competition has intensified, the quality and convenience of services for customers have increased. However, challenges remain, such as slow privatization process, lack of financial infrastructure in some regions, and relatively low levels of financial literacy. This hinders the full realization of the potential of banking services. In particular, the process of transition to a "cashless economy" is not fully completed. Along with the development of digital banking platforms, attention to cybersecurity issues needs to be intensified, as as the number of digital attacks increases, the protection mechanisms of the banking system should be constantly improved.

Based on these analyses, it is necessary to strengthen the bank's customer-oriented approach, adapt products and services to individual customer needs, as well as optimize the centralized policy for improving the effectiveness of banking services. Expanding partnerships with fintech companies also plays an important role in the introduction of innovative solutions [Smith 2020: 34].

#### **CONCLUSION**

The analysis of banking services in Uzbekistan shows that the banking system of the country is undergoing the important stage of transformation. The main priority areas are the development of digital banking, introduction of innovative products and improving the inclusiveness of banking services. While significant progress has been made in these areas, there are also some challenges of systemic importance.

According to the results of the study, one of the urgent tasks is to increase the competitiveness of the banking services market, ensure financial stability and expand access to financial services for the population and businesses. In particular, it is necessary to implement comprehensive measures to accelerate the digitalization process, strengthen cybersecurity, further expand the inclusiveness of banking services, and improve financial literacy.

Further research directions can be devoted to studying the deep integration of artificial intelligence and blockchain technologies in banking services, analyzing



green financing mechanisms, and assessing the impact of financial services market segmentation on the national economy. It is also of great scientific value to study the effectiveness of implementing ESG principles (Environmental, Social and Corporate Governance) in the banking system. These conclusions contribute to the sustainable economic development of Uzbekistan, deepening of the financial markets and improving the wellbeing of the population.

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