



## **International Congress on Economics, Management and Business Studies**

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### **THE ROLE OF COMMERCIAL BANKS IN THE ECONOMY OF THE REPUBLIC OF UZBEKISTAN**

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#### **INTRODUCTION**

Since independence, the Republic of Uzbekistan has been transforming its centrally planned economy into a market-oriented system, and commercial banks have become one of the key institutions in this process. They mobilize savings, provide credit, support investment projects, and ensure the smooth functioning of the payment system. Because capital markets in Uzbekistan are still developing, bank-based intermediation remains the dominant source of external finance for enterprises and households.

The aim of this thesis is to briefly analyze the role of commercial banks in the economy of Uzbekistan, focusing on financial intermediation, investment financing, payment services, and the main challenges facing the sector. The relevance of the topic is explained by the rapid growth of banking assets and loans, the expansion of non-cash payments, and the ongoing reforms to improve competition and financial stability.

#### **MAIN PART**

##### **1. Commercial banks as financial intermediaries**

Commercial banks in Uzbekistan perform a classic intermediation function by collecting deposits from households and firms and channeling these funds into loans for the real sector. In recent years, the volume of deposits and loans has



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increased significantly, and indicators such as bank assets and credit as a share of GDP have risen. This shows that banks have become more capable of supporting production, trade, services, and consumption in the national economy.

At the same time, the sector remains concentrated and dominated by state-owned banks, which still hold the majority of total assets and loans. This structure allows the state to direct credit to priority sectors but can also weaken competition and slow the development of private and foreign banks. Therefore, the government is implementing a gradual privatization program and strengthening corporate governance to increase the efficiency of financial intermediation.

## **2. Support for investment, SMEs, and payments**

Because capital markets are underdeveloped, commercial banks are the main source of long-term financing for investment projects in Uzbekistan. They provide loans for industrial modernization, infrastructure, housing construction, and agricultural development, which directly contributes to capital formation and job creation. Special lending programs, often supported by international financial institutions, help expand access to finance for small and medium-sized enterprises, which are crucial for employment and regional development.

Commercial banks also operate the core payment infrastructure of the country. The widespread use of bank cards, online transfers, and QR-code payments has reduced cash turnover and increased the share of non-cash transactions in the economy. Digital banking services—such as mobile applications and internet banking—have improved customer convenience and supported financial inclusion, especially in remote regions. At the same time, digitalization requires banks to pay more attention to cybersecurity and consumer protection.



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### **3. Monetary policy transmission and stability**

Commercial banks are central to the transmission of the Central Bank's monetary policy decisions to the real economy. Changes in the policy rate and liquidity conditions affect interbank rates, deposit and lending rates, and thus influence investment, consumption, and inflation dynamics. The effectiveness of this mechanism depends on the health of banks' balance sheets, the quality of risk management, and the degree of competition in the sector.

However, the sector still faces risks such as non-performing loans, balance-sheet dollarization, and high credit concentration in certain sectors. These vulnerabilities can weaken financial stability if they are not controlled through strong supervision and prudent internal policies. Continued reforms aimed at improving asset quality, diversifying funding sources, and strengthening regulation are therefore essential for sustainable banking sector development.

### **CONCLUSION**

In summary, commercial banks play a crucial role in the economy of the Republic of Uzbekistan by mobilizing savings, allocating credit, financing investment, operating the payment system, and transmitting monetary policy. Their activities significantly influence economic growth, employment, structural change, and financial inclusion.

At the same time, the effectiveness of this role is constrained by the dominance of state-owned banks, limited access to finance for SMEs and rural borrowers, credit risk, and new challenges associated with rapid digitalization. Successful implementation of ongoing reforms—privatization, improved governance, stronger risk management, and safe digital transformation—will determine how fully commercial banks can support Uzbekistan's long-term development goals.



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