

## IMPROVING THE BANKING SYSTEM IN THE DEVELOPMENT OF THE NATIONAL ECONOMY

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### Annotation

The article analyzes the improvement of the banking system in the development of the national economy, identifies the parameters of the effectiveness of the banking system in ensuring the stability and growth of the country's economy. In particular, proposals are made to ensure economic stability through the modernization of the banking system, support investors and entrepreneurs, and increase the growth rate of the national economy by improving the availability and quality of financial services. The main problems of the banking system and ways to solve them are also studied.

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### Introduction.

The banking system plays an important role in the sustainable development and growth of the national economy. Banks ensure economic stability not only by providing financial support to economic activity, but also by effectively allocating resources, attracting capital, and managing financial risks. At the same time, the effective functioning of the banking system performs such important tasks as increasing competitiveness in the economy, attracting investments, and developing entrepreneurship. However, in many developing countries, the banking system still faces various problems and shortcomings, which hinder the development of the national economy. This article examines the possibilities of increasing the growth rate of the national economy, solving problems, and improving the financial environment through the improvement of the banking system. Reforms of the banking system, increasing its efficiency, and ensuring economic integration serve the sustainable and long-term development of the national economy. In our country, our esteemed President Sh.M. Mirziyoyev is implementing many measures to develop the national economy. In particular, practical measures are being taken to preserve natural and national resources, expand local production capabilities, increase waste recycling capabilities by improving the recycling sector, introduce resource-saving technologies, increase productivity through intensive methods, ensure national currency reserves, and improve the provision of banking services. It is clear that improving banking services in our country is desirable to increase the stability of the national economy. Improving banking services creates the opportunity to quickly carry out operations arising in economic relations.

## Research and methods.

In accordance with the Resolution of the President of the Republic of Uzbekistan No. 60 dated January 28, 2022 “On the Strategy for the Development of New Uzbekistan for 2022-2026”, the following is required:

- continue the industrial policy aimed at ensuring the stability of the national economy and increasing the share of industry in GDP, increasing the volume of industrial production by 1.4 times;
- implement work aimed at transforming the digital economy into the main “driving” sector and increasing its volume by at least 2.5 times;
- complete the transformation of the banking system by 2025, bringing the share of private banks to 60% of total banking assets.<sup>1</sup>

During the consistent reform of the financial sector, a number of measures were implemented, and as a result, the necessary legal conditions were created for conducting advanced banking business and strengthening the competitive environment in this sector. At the same time, an analysis of the current situation in the banking sector shows that there are a number of systemic problems that hinder the development of the banking sector in line with economic renewal and the needs of society, such as high levels of state intervention in the banking sector, insufficient quality of management and risk management in banks with state participation, and a low level of financial intermediation in the economy. The banking system of the Republic of Uzbekistan today consists of 31 commercial banks providing traditional areas of banking services - lending, deposit operations, settlement and cash services. During the independence of our country, banks were established for specific goals and tasks, actively involving state-owned enterprises and state development programs in financing at preferential interest rates. As a result, the share of preferential loans in the total portfolio of the banking system is more than 60 percent. The state occupies a dominant position in the banking sector - 13 out of 31 banks have state participation in the capital, their capital accounts for more than 87 percent of the total capital of the banking system, and their assets account for more than 85 percent of total assets. The active phase of banking sector reform, which began in 2017, was aimed at liberalizing the foreign exchange market, removing outdated restrictions on banking activities and freeing banks from functions that are not inherent to them, and increasing the popularity of banking services.<sup>2</sup>

The financial stability and resilience of the banking sector is a key condition for the successful implementation of planned reforms and strengthening the confidence of businesses and the population in the national banking system.

- Privatization of commercial banks is an important factor in reforming the banking system.
- Increasing the accessibility of financial services implies expanding access to basic banking services (deposit, credit and payment services) for the population and business entities, including underserved segments (low-income individuals, rural residents, micro-firms and small enterprises).
- In the context of maintaining high lending growth rates, as well as in the process of reforming the banking system and preparing it for privatization, the presence of an appropriate level of prudential supervision through increasing the role of the Central Bank as a regulator of the banking system is an important condition for ensuring the stability of the financial system.

## Result and discussion.

In order to assess the timely achievement of the goals set for the reform of the banking sector and the

<sup>1</sup> Decree of the President of the Republic of Uzbekistan No. PF-60 “On the Strategy for the Development of New Uzbekistan in 2022-2026”, January 28, 2022

<sup>2</sup> Decree of the President of the Republic of Uzbekistan No. PF-5992 “On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025”, May 12, 2020

success of the efforts made, the following target indicators are included:

1. increasing the share of assets of banks without state share in the total assets of the banking system from the current 15 percent to 60 percent by 2025;
2. increasing the share of liabilities to the private sector in the total liabilities of banks from the current 28 percent to 70 percent by the end of 2025;
3. attracting at least three strategic foreign investors with the necessary experience, knowledge and reputation to the capital of at least three banks with state share by 2025;
4. Increasing the share of non-bank credit organizations in the total lending volume from the current 0.35 percent to 4 percent by 2025.<sup>3</sup>

**Target indicators for the implementation of the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025<sup>4</sup>**

№	Naming of indicators	Current status	Purpose:		
			For 2021	For 2023	For 2025
1.	The share of assets of private (state-owned) banks in total banking sector assets	15 percent	17 — 20 percent	35 — 40 percent	60 percent
2.	Share of banks' liabilities to the private sector in total liabilities	28 percent	30 — 40 percent	60 percent	70 percent
3.	Attracting strategic foreign investors with sufficient experience, knowledge, and reputation	-	-	3	3
4.	The ratio of deposits to bank liabilities	41 percent	41 — 45 percent	45 — 50 percent	50 — 60 percent
5.	Share of assets of non-bank credit institutions in total assets of credit institutions	0,35 percent	0,5 — 0,7 percent	1 — 1,5 percent	4 percent
6.	Share of foreign currency liabilities in total liabilities	58 percent	50 — 55 percent	45 — 50 percent	40 — 45 percent
7.	Ratio of bank assets to GDP	53 percent	53-54 percent	54-55 percent	55 more than a percent
8.	Ratio of bank deposits to GDP	18 percent	19 — 21 percent	22 — 24 percent	25 — 27 percent

The table below is based on the "Roadmap" for reforming the banking system of the Republic of Uzbekistan for 2020-2025, which provides for the diagnosis of the activities and assessment of the financial condition of banks with state shares, the transfer of share packages in commercial banks to the State Assets Management Agency, and the privatization of state shares. As a result:

- Privatization of the state share of "Poytaxt Bank" JSC and "Uzagroexportbank" JSCB;
- Transformation of "Uzsanoatqurilishbank" JSCB and sale of the state share in it;
- Transformation of "Aloqabank" JSCB and sale of the state share in it;

<sup>3</sup> Decree of the President of the Republic of Uzbekistan No. PF-5992 "On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025", May 12, 2020

<sup>4</sup> Decree of the President of the Republic of Uzbekistan No. PF-5992 "On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025", May 12, 2020

- Privatization of “Asia Alliance Bank” JSCB;
- Transformation of “Turonbank” JSCB is envisaged.

By 2025, it is planned to gradually increase the minimum authorized capital of banks to 500 billion soums, and now, from January 1, the official authorized capital of banks will be this amount.

**In conclusion**, it should be said that the comprehensive improvement of the banking system in the development of the national economy contributes to the expansion of new opportunities for the country's economy. Modern improvement of banking services ensures the regulation of economic relations in the state and becomes a financial support for the growth of the national economy. The development of the banking system is of great importance in the development of the national economy. The banking system is one of the main branches of the economy, which plays a key role in the effective allocation of financial resources, attracting investments, developing foreign trade and supporting entrepreneurship. Below I will give the main conclusions on the development of the banking system:

1. Ensuring financial stability: The stability of the banking system plays an important role in ensuring the overall stability of the economy. Banks also help manage the inflation rate, interest rates and other financial indicators in the economy.
2. Investing in projects: Banks are an important source for the development of the national economy, they support entrepreneurship through loans, borrowings and other financial products. This, in turn, helps to create new jobs, implement innovative projects and ensure high rates of economic growth.
3. Increasing the competitiveness of the banking system: Increased competition among banks leads to an increase in the quality of service, as well as a decrease in interest rates. Increasing competitiveness ensures efficient resource allocation in the national economy.

Thus, for the effective development of the national economy, it is necessary to modernize the banking system, introduce innovations, ensure stability and increase its competitiveness. All these factors contribute to the growth of the national economy and increase its competitiveness on a global scale.

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