



FOREIGN EXPERIENCE IN PRIVATIZING STATE BANKS AND THE PROSPECTS FOR ITS IMPLEMENTATION IN UZBEKISTAN

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Abstract

The process of privatizing state banks in Uzbekistan and the potential benefits and challenges associated with this process are discussed in this article. The privatization of state banks is seen as a means to improve the competitiveness and profitability of the banking sector, attract foreign investment, create new jobs, and contribute to economic growth in Uzbekistan. The article pays special attention to the issues and challenges that have arisen during the privatization process, including political resistance and financial stability concerns. The potential impact of privatization on the Uzbek economy, including its potential to spur economic growth, create new jobs, and attract foreign investment, as well as the risks and potential benefits associated with this process, are also discussed.

Keywords: bank, state banks, privatization, investment, job creation.

INTRODUCTION

For many years, state banks have played a leading role in the financial system of Uzbekistan, supervising the majority of assets and serving as the main source of credit for many companies and individuals. However, as Uzbekistan seeks to modernize and diversify its economy, the need for a competitive and innovative financial sector has become increasingly apparent. To this end, the government has initiated a series of reforms aimed at privatizing state banks and encouraging greater participation by private sector institutions. While the process is ongoing, the targeted reforms are expected to enhance the efficiency and risk management capabilities of Uzbekistan's economy, making it more attractive to international capital markets.

Over the years, Uzbekistan's state banking sector has faced a number of challenges. One of the major issues has been a lack of competition and innovation, resulting in inefficiency and limited access to modern financial products and services. In addition, state banks have often been subject to political influence and faced problems such as corruption and non-performing loans.

In recent years, the Uzbekistani government has prioritized the modernization and diversification of the financial sector as a means of promoting economic growth and





development. As part of these efforts, the government has launched a series of reforms aimed at privatizing state banks and encouraging greater participation by private sector institutions. While the process is ongoing, these reforms are intended to foster greater competition and innovation in Uzbekistan's financial sector, supporting the needs of entrepreneurs and individual citizens.

LITERATURE REVIEW

The article discusses the privatization of state banks based on the experiences and contexts of various countries. The research suggests that state banks are less efficient than private banks, and the question arises whether the privatization of state banks is necessary. The article focuses on the impact of privatization on the operational efficiency and profitability of banks.

According to Clarke et al. (2005), the financial indicators of banks show that the information regarding their financial performance is less transparent compared to the other industries. This situation is even worse in industries with weak financial reporting conditions. The question remains whether privatization improves economic growth by improving the overall economy. Although there are many studies that show that the banking industry plays a crucial role in economic growth (Guiso et al., 2004), there is little evidence to support the profitability of privatized banks.

The results suggest that the privatization of banks is beneficial for financial development. Specifically, in regions where we had one more special bank that owned millions of people, we can see that the volume of lending to private firms and individuals increased by 11-22% during 2002-2006. However, bank privatization did not lead to an increase in investment or real income growth from 1996 to 2007. This is true despite the strong growth in real income during this period in Russia (Berkowitz, DeJong, 2011).

Berkowitz et al. (2014) have found that the impact of bank privatization is influenced by various factors, including the size of the bank, the level of economic development, and the institutional environment. Therefore, the decision to privatize a state bank should be made by considering these factors.

Ohama and Asai (2011) conducted research on the economic significance of privatizing Japan Post Bank and found that privatizing postal savings banks had a positive impact in Japan.

Buigut and Kapar (2020) used the method of studying cases to conclude that Qatar's diplomatic and economic isolation had a positive impact on the banking sector in Saudi Arabia. They found that the cooperation of the Financial Action Task Force with other countries also had various impacts.





Kumar et al. (2020) conducted research to examine the impact of IDBI Bank's privatization on the Indian economy. They concluded that privatization partially improved the bank's profitability and efficiency.

Tojtemirovich and Sayfiddinovich (2020) studied 22 banks (11 public sector and 11 private sector banks) using the OLS and panel data methods to investigate the privatization of commercial banks in China from 2006 to 2016. They identified that the performance indicators of public sector banks were significantly lower compared to private banks in China, as state banks created more visible risks to liquidity and slowed profitability.

In these articles, the economic significance of banks specializing is emphasized in each example. To specialize banks, their activities and goals are analyzed and reported on. Specializing in bank activities helps banks respond to social and economic issues and increase collaboration. Additionally, specializing banks' deposits are tailored to meet the social goals of a country or foreign social organization.

In addition, several recent studies have investigated how government-private positions influence the reliability of banks (Samet et al., 2018), how creating liquidity affects the financial stability of banks (Gupta and Kashiramka, 2020), and how the banking sector contributes to economic growth (Thota and Subrahmanyam, 2020).

Taking into account the conclusions from studying literature, one important conclusion is that specializing increases profitability, improves risk management, and broadens access to international capital markets, all of which support economic growth and development.

It should also be emphasized that specialization is a complex and challenging process, and to avoid negative consequences such as concentration of ownership, lack of regulatory oversight, or financial instability, careful planning and implementation are required.

In conclusion, specializing government banks in the literature can be a useful tool to promote economic development, but it must be adapted to the particular needs and characteristics of each country's financial sector and economy. Overall, specializing in banks in literature has the potential to be beneficial in all respects, but it requires careful planning and implementation to ensure that all stakeholders benefit.

ANALYSIS AND RESULTS

The Uzbek government has identified the privatization of state banks as a critical issue for several reasons. First, the government recognized that the state banking sector has faced a series of problems in recent years, including inefficiency, non-performing





loans, and corruption, which have hindered the development of the banking sector and made it difficult for entrepreneurs and individuals to obtain credit.

Second, the government believes that privatization will help to address these problems by introducing new expertise and capital, improving efficiency, managing risks more effectively, and promoting competition and innovation in the financial sector.

Third, the government expects that privatization will attract more foreign investment into Uzbekistan, thereby promoting economic growth and diversification.

Overall, privatization of state banks is seen as a key step towards modernizing and diversifying the Uzbek economy, as well as creating a more competitive and innovative financial sector that can better serve the needs of businesses and individuals.

One of the advantages of specialization is expanding profitability. Private banks are more profitable compared to state-owned banks due to their ability to appeal to customer needs, introduce innovative technologies and processes, and respond quickly to changes in the market. Specialized banks can also monitor expenses more efficiently, allocate resources more profitably, and increase profitability and financial stability.

Another potential benefit is better risk management. Specialized banks are more focused on balancing profits and losses, making them more skilled in identifying and managing credit risks, operational risks, market risks, and other types of risks. They can also help build trust between customers and investors by demonstrating their ability to handle these risks.

Specialization also provides opportunities for international capital markets. Specialized banks can offer attractive returns and comply with international standards and regulations, making it easier for international investors to inject capital. This infrastructure, technology, and innovation help attract investment, promoting economic growth and development.

Several countries have successfully specialized their state-owned banks, such as Spain, which specialized several state-owned banks, including Argentaria and Banco Santander, in the 1990s. This move promoted competitiveness and innovation in the Spanish banking sector, while increasing profitability and financial stability. As a result, the Spanish banking sector became more dynamic and competitive, ultimately contributing to the country's economic growth and development.

Brazil: In the 1990s, Brazil privatized several of its state-owned banks, including Banco do Brasil and Banco Nacional. This has led to increased efficiency and profitability in the Brazilian banking sector, as well as expanded access to





international capital markets. Privatization also helped reduce the government's fiscal burden and liberalize the economy in Brazil.

Mexico: In the 1990s, Mexico privatized several of its state-owned banks, including Banamex and Bancomer. This has led to increased competition and innovation in the Mexican banking sector, as well as increased efficiency and profitability of privatized banks. Privatization also helped stabilize Mexico's banking system after the country's financial crisis in the 1990s.

China: In the 2000s, China began privatizing several of its state-owned banks, including the Bank of China and the Industrial and Commercial Bank of China (ICBC). This has led to increased efficiency and profitability in China's banking sector, as well as expanded access to international capital markets. Privatization has also fueled economic growth and development in China by financing investment in critical sectors such as infrastructure and technology.

India: In the 1990s, India began privatizing several state-owned banks, including ICICI Bank and HDFC Bank. This has led to increased competition and innovation in the Indian banking sector and increased efficiency and profitability of privatized banks. Privatization also helped to reduce the fiscal burden of the government and liberalize the economy in India.

Russia: In the 2000s, Russia began privatizing several state-owned banks, including Sberbank and VTB Bank. This led to increased efficiency and profitability in the Russian banking sector, as well as increased access to international capital markets. Privatization has also helped Russia's economic growth and development by financing investments in key sectors such as energy and natural resources.

Poland: In the 1990s, Poland began privatizing several of its state-owned banks, including Bank Pekao and Bank Zachodni WBK. This led to increased competition and innovation in the Polish banking sector, as well as increased efficiency and profitability of privatized banks. Privatization also helped reduce the government's fiscal burden and liberalize the economy in Poland.

In all these cases, the privatization of state-owned banks has led to positive outcomes such as increased efficiency, improved risk management, and increased access to international capital markets. These results have helped to stimulate economic growth and development and create a more competitive and innovative financial sector.

Since the announcement of privatization plans in 2017, Uzbekistan has made significant progress in the privatization of state-owned banks. The first step in 2018 was the separation of commercial and investment banking functions within state-owned banks. After that, the National Bank of Foreign Economic Activity of





Uzbekistan (Uzmilli Bank) was established as a separate state bank. In 2019, it is designed to operate on the basis of international banking standards and best practices.

In 2018-2020, the number of credit organizations reached 55, including 4 commercial banks (Capital Bank, Tenge Bank, Tenge Bank, TBS Bank, Anor Bank), 33 microcredit organizations and 18 pawnshops.

As of January 1, 2021, the assets of commercial banks are 366.1 trillion. reached soums and increased by 120% compared to 2017. During this period, the average annual real growth (excluding devaluation) was 24.1 percent.

As a result of the liberalization of the currency policy, the level of dollarization in the banking sector has decreased significantly. In particular, in 2017, the share of foreign currency assets of banks in the total assets was 64 percent, and in 2020, this indicator decreased to 50.2 percent. Also, during this period, the share of loans in foreign currency decreased from 62.3% to 49.9%, and the share of deposits in foreign currency decreased from 48.4% to 43.1%.

The real growth of loans made an average of 38.6 percent per year. As of January 1, 2021, the total amount of loans to the economy is 277 trillion. amounted to soums and increased by 150% compared to 2017.

During this period, the average annual real growth rate of deposits was 18.5 percent. The Decree of the President of the Republic of Uzbekistan "On the Strategy for Reforming the Banking System of the Republic of Uzbekistan in 2020-2025" was adopted in order to increase the efficiency of the banking system and the financial stability of banks, as well as to expand the possibilities of using banking services and to reduce the state share in the banking system.

In accordance with this Decree, a decision was made to privatize Ipoteka Bank, Uzsanoatqurilishbank, Asakabank, Aloqa Bank, Kyshloq Kirilish Bank and Turon Bank. In 2020, as part of the implementation of the strategy, the International Finance Corporation (IFS) provided 35 million Uzbek soums to Ipoteka Bank to support the privatization of the bank and to increase loans to small and medium-sized businesses. provided a loan in the amount of US dollars.

In 2020, the government of Uzbekistan began the process of privatization of state banks, selling minority shares of three banks: "Asaka Bank", "Kishloq Kurilish Bank" and "Ipoteka Bank". The government announced that in the near future it plans to sell the main shares of these banks, as well as other state-owned banks such as Uzsanoatqurilishbank.

"Uzsanoatkurilishbank" started implementing the transformation program. The bank has taken the first steps towards commercializing its business model and reforming





its corporate governance. At the same time, the European Bank for Reconstruction and Development (EBRD) provides assistance and advice to the bank on privatization, improvement of treasury operations, and management of assets and liabilities. In particular, in 2020, between "Uzsanoatkurilishbank" and ETTB, 40 million will be allocated for financing local manufacturers, exporters, small and medium-sized businesses. A loan agreement was signed to attract a credit line in the amount of USD. The bank has introduced underwriting, which allows credit operations to be carried out without the participation of an employee.

The government has also taken steps to attract foreign investors to participate in the privatization process, including the adoption of a new foreign investment law in August 2020 that provides a number of benefits for foreign investors, such as tax breaks and simplified visa procedures.

In general, the privatization of state-owned banks is seen as a key part of large-scale economic reforms aimed at increasing efficiency and competitiveness in the banking sector in Uzbekistan, as well as encouraging foreign investment and integration with the world economy. Although the process is still ongoing, the progress achieved so far shows that Uzbekistan is committed to achieving its privatization goals and modernizing the banking sector.

As a result of the liberalization of the currency policy on September 2, 2017 and the free movement of the national currency, there have been significant changes in the development of the banking sector in the last 5 years.

In February 2019, for the first time in the history of Uzbekistan, the government allocated 1 bln. After the successful placement of US dollar sovereign Eurobonds, several commercial banks entered the international capital market to raise long-term capital.

In particular, in November 2019, Uzsanoatkurilishbank sold 300 mln. took the first step among commercial banks by issuing Eurobonds. In October 2020, the National Bank of Foreign Economic Activities received 300 million from the London Stock Exchange. attracted dollar funds. In November, Ipoteka Bank also placed Eurobonds in the amount of 300 million dollars and became a participant of the international capital market.

Also, in recent years, large-scale reforms aimed at increasing the investment attractiveness of the financial sector have helped to increase the interest of foreign investors in the banking sector:

In 2018, a joint-stock company managed by the Swiss company ResponsAbility Investments and specializing in development investments bought 7.66% of the shares of Hamkorbank from IFC.



In 2019, Kazakhstan Halyk Bank established a branch of Tenge Bank in Tashkent. TBC Bank (Georgia), which bought Payme in April 2019, opened its Tashkent branch a year later as the number one bank in Uzbekistan.

In 2020, the German Institute for Financial Development (Deutsche Investitions- und Entwicklungsgesellschaft mbH, DEG) and Triodos Investment Management invested in the bank's authorized capital by purchasing newly issued shares of Silk Road Bank in the amount of \$25 million.

Although Uzbekistan has made significant progress in the privatization of state banks, it has faced a number of difficulties and obstacles in this process.

One of the main problems has been the opposition of some political groups and interest groups against privatization. These groups expressed concern about the loss of control over the banking sector, as well as the impact of privatization on the broader economy and the financial well-being of the public.

Ensuring the stability of the financial system during the privatization process was another challenge. Some experts have warned that rapid and poorly managed privatization could lead to financial instability, as private banks may engage in risky lending practices or lack the necessary expertise to manage complex financial products. To address these concerns, the Uzbek government has announced that it will take a gradual approach to privatization, starting with minority stakes and gradually moving to majority stakes over time.

There may also be concerns about the impact of privatization on the wider economy, including potential job losses or reduced credit availability for small businesses. In order to overcome these problems, the government has announced that it will try to ensure that the privatization process is carried out in a transparent and responsible manner, and that the demands of all interested parties are taken into account.

Needless to say, while there are challenges and risks associated with the privatization of state-owned banks, the Uzbek government is taking a careful and thoughtful approach to the process to ensure that the benefits of privatization are realized while minimizing any negative effects of privatization.

Privatization of state-owned banks in Uzbekistan has the potential to positively impact the broader economy in several ways.

First, privatization can lead to increased efficiency and competitiveness in the banking sector, helping to drive economic growth by making it easier for businesses to obtain credit and finance their activities. Privatized banks may be better able to assess and manage risk, and may be more responsive to market conditions and customer needs. Second, privatization can encourage foreign investment by signaling to investors that the country is committed to market-based economic reforms and creating a business-





friendly environment. This will help the country attract foreign capital, which can further support economic growth and job creation.

Third, privatization can lead to job creation by stimulating the growth of small and medium-sized enterprises, which are often key drivers of job creation in developing countries. An efficient and competitive banking sector helps these enterprises to increase their access to credit, expand their activities and create new jobs.

However, there are also risks and potential downsides to privatization. For example, if the process is mismanaged or rushed, it can lead to financial instability or job losses in the short term. There may also be concerns about the potential loss of control over the banking sector and the impact on the wider economy.

Overall, the potential impact of privatization on Uzbekistan's economy will depend on how it is implemented and whether it is part of a broader strategy of economic reform and modernization. Privatization, if done effectively, can help spur economic growth, job creation and foreign investment, while promoting greater efficiency and competition in the banking sector.

Although there are potential benefits of privatization of state-owned banks in Uzbekistan, a number of risks and negative aspects should also be considered.

One potential risk is increased inequality, especially if privatization leads to the concentration of banking assets in the hands of a few wealthy individuals or corporations, which in the future could limit competition and lead to higher fees or less favorable credit terms for customers. To mitigate this risk, the government could consider imposing limits on ownership concentration or encouraging the growth of smaller, more competitive banks.

Another potential risk is financial instability, especially if the privatization process is rushed or poorly managed, private banks may engage in risky lending practices that may increase volatility in the financial sector. To reduce this risk, the government can implement strong regulatory oversight and require privatized banks to adhere to strict risk management standards.

If smaller banks are merged as part of the privatization process, there is also the risk of job losses or reduced access to credit for small businesses. To address this risk, the government may consider implementing policies that support job creation and entrepreneurship, such as providing training and access to capital for small business owners.

Finally, privatization can lead to a loss of control over the banking sector, especially if foreign investors hold large stakes in privatized banks, which can limit the government's ability to influence the direction of the financial sector or respond to economic crises. To mitigate this risk, the government could consider measures to





ensure that privatized banks are accountable to the public interest, such as transparency and disclosure requirements for major shareholders.

Based on the above, it can be said that while privatization can bring potential benefits to the economy of Uzbekistan, it is important to carefully consider and manage the risks and downsides that may be associated with the process.

CONCLUSION

In conclusion, while privatization may bring potential benefits to Uzbekistan's economy, it is important to carefully consider and manage the potential risks and downsides associated with the process. It will be important for the government of Uzbekistan to ensure the accountability of privatized banks to the interests of society and to implement policies to mitigate the risk of inequality, financial instability and loss of control over the banking sector. The future of the banking and financial sector in Uzbekistan will depend on how effectively the privatization process is carried out, as well as on the country's wider economic reforms and modernization.

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