

## Analysis of the Level of Competition in the Banking System of Uzbekistan

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**Abstract:** The banking system plays a pivotal role in the economic development of Uzbekistan, serving as a key facilitator of financial intermediation and resource allocation. In this study, we aim to analyze the level of competition within the Uzbekistani banking sector to understand its implications for market efficiency and consumer welfare. Utilizing a combination of quantitative data from financial reports, regulatory filings, and market surveys, we employ established metrics such as the Herfindahl-Hirschman Index (HHI) to measure market concentration and assess the competitive landscape. The banking sector helps with money management and growth. Changes in global finance make it important to understand how banking affects economic development. Uzbekistan's banking system has changed a lot as the country has moved toward a market-based economy. Now, it includes different types of banks, like government ones, private banks, and foreign banks.

The authors gathered information from reliable sources like the Central Bank of Uzbekistan, as well as big international organizations like the World Bank and the International Monetary Fund. The study found that Uzbekistan's banking sector is growing steadily, with more banks opening up and offering a wider range of services.

The analysis revealed that Uzbekistan's banking sector has shown a steady growth trend from 2016 to 2023. This period marks a significant increase in the number of banking units, reflecting the evolving financial landscape of the country. The market shares of individual banks vary significantly, with some larger banks holding substantial market shares while smaller banks have more limited market presence. Moreover, the Herfindahl-Hirschman Index (HHI) values for all key banking indicators have remained below 1500 over the four years, indicating a high level of competition in the sector.

**Keywords:** banking system, level of competition, commercial banks, The Herfindahl-Hirschman Index (HHI).

### Introduction

The banking system of the Republic of Uzbekistan is an integral part of the financial and monetary credit system of the Republic of Uzbekistan. The banking system in our republic consists of a two-tier banking system, which includes the Central Bank and commercial banks. [6] It is an essential core within the country's economy which serves as a driver of financial and sustainable intermediation and economic growth. As banks continue to play an important role in the global financial system, a sound understanding of the impact of banking on economic growth is essential.[1] The banking sector of Uzbekistan that's history is connected with the country's transition to a market economy, has undergone important reforms and structural transformations in order to adapt to the changing economic conditions and regulatory frameworks over the past several decades. Today, the sector includes a variety of banks, including government institutions, commercial banks, and foreign organizations, each of which plays a distinct role in attracting savings, distributing capital, and facilitating transactions in the economy.

If banks are to compete with each other, they must provide excellent services for their customers, otherwise people will switch to another, better, bank. This makes banks more efficient and effective, which is good for the economy.[2] A competitive banking environment fosters innovation, drives down costs, and promotes greater accessibility to financial services, thereby stimulating entrepreneurship, investment, and overall economic activity. Furthermore, competition incentivizes banks to improve their service quality, risk management practices, and product offerings, leading to enhanced financial inclusion and customer satisfaction.

Despite the growing recognition of the importance of competition in the banking sector, there remains a significant gap in the existing literature on the analysis of competition in the banking system of Uzbekistan. Although studies have examined competitive dynamics in other emerging economies and developed markets, relatively few have focused on Uzbekistan. This gap provides an opportunity for further research to deepen our understanding of the competitive environment, market structure, and regulatory dynamics shaping the banking sector in Uzbekistan. By filling this gap, the authors seek to add valuable insights that can inform policy decisions, regulatory reforms, and strategic initiatives aimed at developing a more competitive and sustainable banking system in Uzbekistan.

The objective of this study is to analyze the level of competition in the banking system of Uzbekistan. Using a comprehensive framework that includes quantitative analysis, qualitative assessment and theoretical framework, the authors aim to analyze the level of competition, market concentration and competitive behavior in the banking sector of Uzbekistan. The authors' objectives include identifying key factors affecting competition, assessing their impact on market efficiency and consumer welfare, and providing evidence-based recommendations for policymakers, regulators and industry stakeholders. Through this analysis, the authors aim to contribute to the broader discussion about banking sector reform, economic development, and financial stability in Uzbekistan.

## **Literature Review**

The literature review was conducted by systematically searching databases such as JSTOR, Econ Lit, and the World Bank's Open Data. Furthermore, the review included analyses from academic journals including 'The Journal of Finance', conference papers, and reports from policy institutes specializing in Banking system. Publications from the International Monetary Fund Working Paper, The World Bank, and national statistical offices were also reviewed. The selection criteria focused on relevance to the research question, credibility of the source, and recency of the data.

## **Methodology**

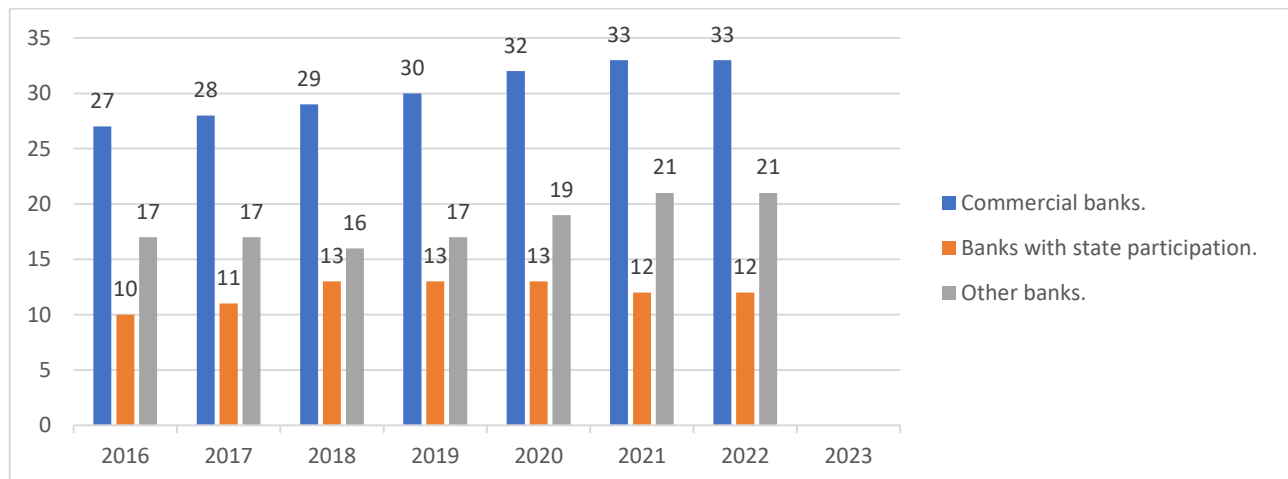
The banking sector analysis involves gathering information from various sources to understand market dynamics, competitive behavior, and regulatory environment. The primary data sources for this study includes reports from the official website of Central Bank of Uzbekistan. Secondly, the study consists of other reputable international organizations such as the World Bank, International Monetary Fund and Asian Development Bank were utilized to validate the data. Meanwhile, E-views and Stata used to visualize the data. The analysis focuses on the Republic of Uzbekistan, where it examines its level of competitiveness in the banking system of Uzbekistan. The study aims to identify trends, patterns and shifts in terms of banking system which will assess the economic progress, challenges and implications of the Republic of Uzbekistan through the competitiveness level of banking system.

## **Results**

In our analysis of the banking system in Uzbekistan, we observed the following key statistics related to market concentration.

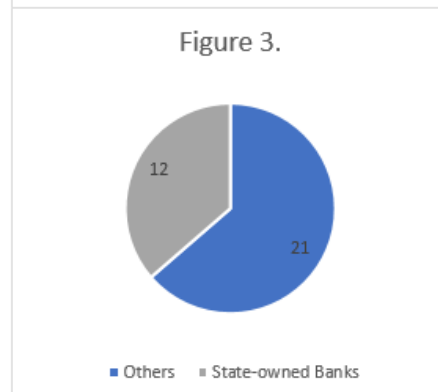
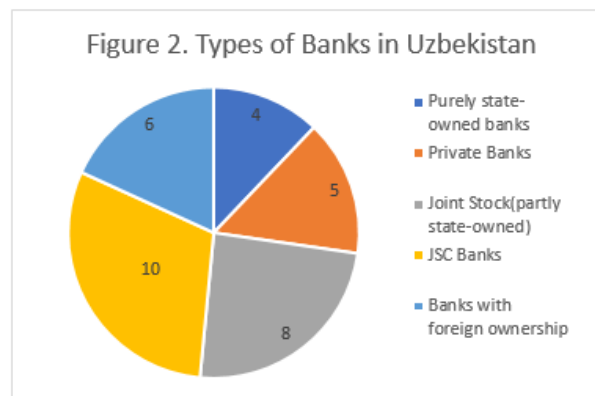
The Uzbek banking sector has shown a steady growth trend from 2016 to 2023. This period marks a significant increase in the number of banking units, reflecting the evolving financial landscape of the country. (Figure 1). [3][8]

The increasing number of banks, especially those with state participation, may lead to enhanced financial stability and more diverse services for consumers. However, it also raises questions about competition, market dynamics, and the role of the state in the banking industry.



Source: compiled by the authors based on data from the Central Bank.

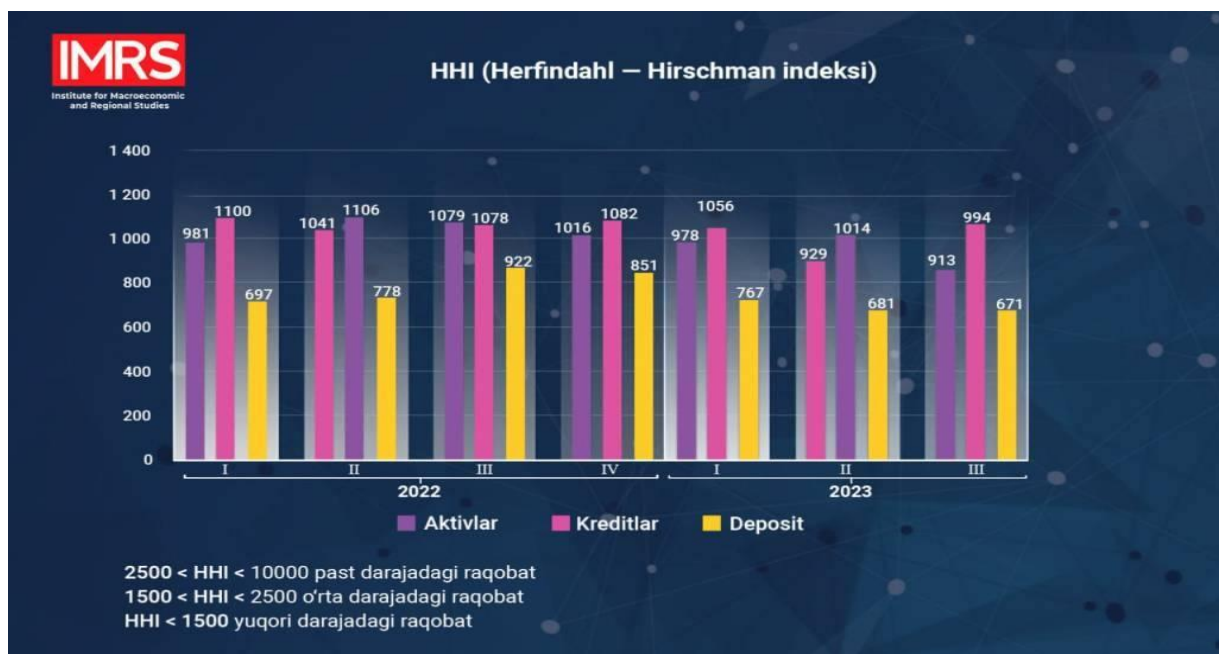
As of the latest available data, Uzbekistan's banking sector comprises 33 banks, including state-owned institutions, commercial banks, and foreign entities. The market shares of individual banks vary significantly, with some larger banks holding substantial market shares while smaller banks have more limited market presence. (Figure2 and Figure 3).



Source: Central Bank of Uzbekistan (2022)

The Herfindahl-Hirschman Index (HHI) is a widely-used measure of market concentration and competition among firms. In the context of Uzbekistan's banking sector, this index provides insights into the level of competition within the market. (Figure 4). [7]

The picture presents the HHI values for three key banking indicators: Assets, Credits, and Deposits from 2020 to 2023. The x-axis categorizes these indicators, while the y-axis shows the HHI values ranging from 600 to 1200. Over the four years, the HHI values for all three indicators have remained below 1500, indicating a high level of competition. The threshold notes at the bottom of the chart explain that HHI values below 1500 signify high competition, between 1500 and 2500 indicate moderate competition, and above 2500 suggest low competition.



The data, sourced from the Institute for Market Research & Surveys (IMRS), suggests that Uzbekistan's banking sector is highly competitive, with no single entity dominating the market in terms of assets, credits, or deposits. A highly competitive banking sector can lead to better services for consumers and more innovation within the industry. However, it also requires careful regulation to ensure that competition remains healthy and beneficial to the economy.

## Discussion

Competitive pressures encourage banks to streamline operations, adopt technology-driven solutions, and enhance productivity, leading to improved operational efficiency and cost-effectiveness. Increased competition typically results in lower costs, better services, and a wider range of products for consumers. They benefit from competitive pricing, improved customer service, and greater convenience in accessing financial services.

In the Figure 1, the bar graph illustrates the number of banks in Uzbekistan over the years, with a clear distinction between commercial banks and banks with state participation. The x-axis represents the years from 2016 to 2023, while the y-axis indicates the number of banks, ranging from 0 to 35.

In 2016, the total number of banks was 27, which increased to 33 by 2022. The graph shows a fluctuating yet overall increasing trend in the number of commercial banks (represented in blue). There is a consistent rise in the number of banks with state participation (represented in orange), suggesting a strategic move towards more state involvement in the banking sector. In general, the data compiled from the Central Bank indicates a robust expansion in the banking sector, with an emphasis on



increasing state participation. This trend could be attributed to policy changes, economic reforms, or a strategic push for stronger financial institutions in Uzbekistan. The Interbank Payment System of the Central Bank is the foundation for the operation of all payment systems as the first payment system of our country after independence. [6]

#### Rating of activity of large banks for the 3Q in 2023(Figure 5).

Among the 17 major banks of the country, three banks improved their places in and rose up by two points in the overall rating – **Xalq bank** managed to significantly improve liquidity indicators by 5 points at once and increased indicators on financial intermediation, capital adequacy and asset quality by one point; **Agrobank** improved indicators on "financial cooperation" (+2 points), and and **Invest Finance Bank** showed an improvement in "capital adequacy" (+5 points). [4]

#	BANK	Overall Rating	Change in the Rating	Financial Intermediation Rating	Financial Access Rating	Capital Adequacy Rating	Asset Quality Rating	Management Quality Rating	Earning ability Rating	Liquidity Rating
1	Kapital bank	1	0	3	1	14	1	8	8	8
2	Azia-alliance bank	2	1	2	10	16	4	3	6	1
3	Hamkor bank	3	-1	10	3	8	2	4	1	9
4	Trast bank	4	1	6	13	1	3	6	2	2
5	Ipak yuli bank	5	-1	15	2	10	8	5	3	5
6	Invest finance bank	6	2	1	12	11	5	12	11	6
7	Orient Finance bank	7	-1	7	17	3	7	2	4	3
8	Xalq bank	8	2	5	8	5	16	13	10	4
9	Aloqa bank	9	0	4	7	17	6	9	12	17
10	Ipoteka bank	10	-3	14	6	6	15	10	5	7
11	Mikrokredit bank	11	0	8	5	2	10	17	14	15
12	Agro bank	12	2	12	4	9	13	14	16	14
13	Qishloq qurilish bank	13	-1	9	9	12	11	16	13	11
14	Uzsanoatqurilish bank	14	1	16	14	15	12	7	9	13
15	National bank	15	-2	17	16	4	17	1	7	10
16	Turon bank	16	0	11	11	7	9	15	15	12
17	Asaka bank	17	0	13	15	13	14	11	17	16

Source: Review.uz

In terms of financial intermediation, the National Bank retained the last, 17th place in the rating. According to this indicator, "Asaka" bank and "Orient Finance" bank decreased by 1 position, "Silk Road" bank and "Kapitalbank" decreased by 2 positions, and "Hamkor bank" decreased by 3 positions. In terms of profitability, "Asaka" bank kept the lowest place, according to this indicator, "Xalq bank" and "Turon bank" increased by 2 points, National bank and "Asia Alliance Bank" by 1 point decreased. In terms of management efficiency, Mikrokredit bank retained the last 17th place. Among the major state banks, a decline was observed in "Xalq Bank", "Kishloq Kurilish Bank" and "Asaka Bank". The mortgage bank lost 8 points sharply. According to the results of the 3rd quarter, Kapital bank retained its leadership in the overall rating of large banks, while Asia Alliance Bank rose by 1 place and took the second place in the overall rating, exchanging places with "Hamkor Bank". [4]

## Conclusion

In turn, the study contributes to a deeper knowledge of the level of competition in Uzbekistan's banking sector and its implications for economic development. Through a comprehensive analysis of market dynamics, competitive behavior, and regulatory frameworks, the authors have provided valuable insights into the competitive landscape of the banking industry in Uzbekistan. By working collaboratively to strengthen the competitiveness and resilience of the banking sector, Uzbekistan can unlock its full potential as a driver of economic growth and prosperity for all its citizens.

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