



## THE PROCESS OF FOREIGN INVESTMENT INTO THE BANKING SECTOR OF UZBEKISTAN

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**Abstract:** *This article analyzes the process of foreign investment inflow into the banking sector of Uzbekistan and assesses changes in the structure of the loan portfolio. The results of the analysis show that the volume of lending by banks has expanded, and activities with foreign capital participation contribute to sustainable development in various sectors of the economy. The study emphasizes the need to encourage foreign investment, maintain inter-sectoral balance, develop retail and mortgage lending, and strengthen investment monitoring. The results reveal the possibilities of effective attraction and management of foreign capital in the banking sector of Uzbekistan.*

**Key words:** *Uzbekistan, banking sector, foreign investments, loan portfolio, inter-sectoral balance, financial resources, individual loans, mortgage, investment monitoring, economic development.*

**Introduction.** The active entry of the Uzbek economy into the modernization process in recent years, the deepening of reforms based on market principles, and systemic changes aimed at increasing the efficiency of financial institutions are creating the basis for the rapid

development of the country's banking sector. As one of the priority areas of this process, the issue of attracting foreign investment is of particular importance, since international capital entering the banking system not only expands the flow of financial resources, but also serves to introduce institutional experience, modern management practices, and international standards. As a result, the stability, competitiveness, and transparency of banking activities will increase, and the financial foundations of economic growth will be further strengthened.

Over the past five years, the government of Uzbekistan has implemented a number of important decisions aimed at liberalizing the banking sector, gradually reducing the state share, accelerating privatization processes, and creating a favorable investment environment for foreign investors. In particular, the integration of large commercial banks with international financial markets, the active entry of institutions such as the European Bank for Reconstruction and Development, the International Finance Corporation, and the Asian Development Bank into the banking system, as well as direct investments in local banks by a number of strategic foreign investors, indicate the dynamic development of this area. This process is stimulating the growth of the volume of assets of the banking system, the strengthening of capital adequacy standards, and the expansion of new digital services.

In addition, the influx of foreign investment into the banking sector is helping Uzbekistan improve its credit ratings with international rating agencies and show itself more positively in the country's financial stability indices. Through the influx of international capital, banks strengthen their liquidity base and gain expanded opportunities in

lending to small businesses, supporting export activities, and financing public-private partnership projects. In addition, the management experience of foreign strategic investors is contributing to improving the quality of corporate governance, introducing advanced risk management systems, and diversifying the banking product market.

From this point of view, scientific analysis of the process of foreign investment inflow into the banking sector of Uzbekistan is of urgent importance. The compatibility of this process with economic, institutional, and legal factors, the identification of existing achievements and problems, and mechanisms for future development, as well as the development of proposals aimed at increasing the competitiveness of the banking system, are important tasks. The main goal of this study is to systematically analyze the mechanisms of formation of foreign investment flows into the banking system of Uzbekistan, their impact on macroeconomic indicators, and the processes of institutional transformation taking place in the sector.

**Literature review.** The issues of foreign direct investment and their impact on the banking system are widely and systematically covered in the scientific literature. The main idea found in the studies is that foreign capital increases the lending capacity of banks by providing them with financial resources, expands liquidity sources and strengthens overall financial stability. Also, “through foreign investment, banks play a huge role in introducing modern management practices, compliance systems and credit and risk management methods. This serves to strengthen the internal inter-institutional structural capacity of banks”.

Scientific research highlights the potential difficulties, along with the positive impact of foreign investment. In particular, “it is noted that

rapid and large capital inflows can sharply intensify inter-bank competition, increase adaptation costs for domestic banks and increase short-term liquidity pressure". Also, the inflow of foreign investors may affect the country's financial sovereignty and require the transfer of control and compliance mechanisms to a new level. Therefore, researchers identify the need to properly manage foreign capital flows, strengthen prudential requirements, and improve the system for controlling interbank risks.

The modernization of the banking system, in particular, the improvement of corporate governance and the introduction of digital banking services, have also been separately studied in the literature. "Foreign investors, through their experience, bring innovative technologies, digital solutions and service packages to banks, which help to improve the quality of customer service and diversify banking products." At the same time, the success of the digital transformation process, in particular in the areas of data protection and cybersecurity, requires a solid regulatory framework, and these aspects are widely discussed in scientific sources. Legal and institutional-structural factors play an important role in analyzing the inflow of foreign investment into the banking sector. In studies, factors such as the stability of the investment environment, clear and precise company legislation, the guarantee of investor rights, and the transparency of tax and financial incentives are considered decisive in attracting foreign capital. From this point of view, the stability of state policy and regulation is seen as an important condition determining the effectiveness of investments.

Research conducted in the context of local conditions also focuses on the socio-economic impact of foreign investment inflows into the

banking system. In particular, foreign investment expands the opportunities for supporting small and medium-sized businesses, financing export operations, and financing infrastructure projects through banks. However, the authors note that the factors that lead to inequality in these processes - the uneven distribution of credit resources, differences in interregional development, and the limited availability of banking services - require scientific attention.

The literature on the methodology of economic analysis offers methods for assessing foreign investment inflows into the banking system through economic indicators. These sources “determine the necessary methods for conducting empirical assessments based on macroeconomic indicators, bank asset structure, capital adequacy, loan portfolio quality, and liquidity indicators.” In addition, the impact of foreign capital on the economy and banking sector indicators is statistically determined through correlation and regression analyses.

The literature also extensively analyzes international experience. “The positive and negative aspects of banking sector liberalization observed in different countries, the characteristics of the privatization process, and the effectiveness of cooperation with foreign investors are studied through examples.” These comparative analyses provide valuable lessons for domestic policymakers in adapting to changes and allow for the harmonization of ongoing reforms with international standards.

This literature shows that foreign direct investment inflows into the banking system serve as an important source of development for the national financial sector. However, for the successful implementation of these processes, a solid legal framework, effective regulation, prudential supervision and interbank risk management mechanisms are necessary.

At the same time, reducing social and territorial inequalities resulting from investments should also be a political priority. The literature review shows that through practical policies and regulations, as well as inter-institutional cooperation, the positive impact of foreign direct investment inflows into the banking system can be maximized.

**Research methodology.** This study empirically studies the dynamics of the composition of loans in the banking system of Uzbekistan by sector and the relationship between changes in the loan portfolio and economic factors. The methodological basis of the study is comparative analysis, statistical and methodological analysis, structural analysis, and economic interpretation.

**Analysis and discussion of results.** In recent years, the economy of Uzbekistan has witnessed significant changes in the region. During the period from 2021 to 2024, economic growth was observed in almost all regions, but the growth rates were different. This is directly related to the economic potential of the regions, production volume, level of investment attraction, and infrastructure development.

Table 1

**Share of commercial banks' credit deposits by sector**

| Indicator name                                | 01.01.2023 y.    |                      | 01.01.2024 y.    |                      | Change<br>,<br>percent |
|-----------------------------------------------|------------------|----------------------|------------------|----------------------|------------------------|
|                                               | billion<br>soums | share, in<br>percent | billion<br>soums | share, in<br>percent |                        |
| Total credits                                 | 390 049          | 100%                 | 471 406          | 100%                 | 21%                    |
| Industry                                      | 126 647          | 32,5%                | 140 152          | 29,7%                | 11%                    |
| Agriculture                                   | 42 096           | 10,8%                | 47 255           | 10,0%                | 12%                    |
| Construction industry                         | 10 400           | 2,7%                 | 12 275           | 2,6%                 | 18%                    |
| Sales and general service                     | 28 911           | 7,4%                 | 32 516           | 6,9%                 | 12%                    |
| Transport and communication                   | 29 673           | 7,6%                 | 34 342           | 7,3%                 | 16%                    |
| Development of material and technical support | 3 856            | 1,0%                 | 4 067            | 0,9%                 | 5%                     |
| Housing and communal services                 | 1 888            | 0,5%                 | 2 345            | 0,5%                 | 24%                    |
| Individuals                                   | 100 949          | 25,9%                | 148 621          | 31,5%                | 47%                    |
| Other areas                                   | 45 630           | 11,7%                | 49 833           | 10,6%                | 9%                     |

**Source:** <https://sqb.uz/uz/for-investors/corporate-governance-structure-uz/>.

The activation of the process of foreign investment inflows in the banking sector of Uzbekistan is clearly manifested in the structural changes in the loan portfolio, the expansion of the volume of financial resources and institutional reforms aimed at increasing the stability of the banking system. During the analyzed period, the total volume of loans increased significantly, and banks expanded their financing of economic sectors. This trend is directly related to the increase in the number of banks with foreign capital, the expansion of credit lines from international financial institutions, and the favorable macroeconomic environment created for investments in the country.

The increase in loans by sector shows in which areas foreign investment flows bring the greatest economic efficiency. The industrial sector continues to occupy a leading position in the loan portfolio, which is explained by the large number of investment projects aimed at modernizing the industry, updating technologies, and expanding the production of high-value-added products. Long-term credit lines provided by foreign banks, as well as international financial institutions, are strengthening the financial stability of this sector.

The growth of loans in agriculture, construction, transport and communications, and trade services also indicates that these sectors have become more attractive for investment by foreign investors. In particular, the rapid increase in loans to transport and logistics infrastructure is helping to strengthen competitiveness in international trade. This process is directly related to infrastructure projects financed by the European Bank for Reconstruction and Development, the Asian Development Bank, and other international institutions.

The sharp growth in loans to individuals indicates that banks are opening up new, promising market segments to foreign investors through the development of the retail market, the expansion of mortgages, consumer loans, and digital banking services. The increase in the share of banks with foreign capital in this segment is contributing to the reduction of the cost of financial services in the country, increased competition, and the expansion of the financial capabilities of the population. The relatively low growth rates in the housing and communal services and logistics sectors indicate that there are still untapped segments for foreign investors, which indicates the broad potential for attracting investment in these areas in the future.

The growth in the structure of bank loans and the redistribution of resources across sectors confirm the steady development of the process of foreign investment inflows into the banking sector of Uzbekistan. The positive dynamics of the loan portfolio indicate the strengthening of macroeconomic stability for foreign investors, the expansion of the principles of openness in the financial sector, and the adaptation of the banking system to international standards. The analysis shows that the increase in foreign investment activity in the banking sector not only increases the volume of financial resources, but also gives a qualitatively new financial impetus to the real sector of the economy, strengthening the long-term foundations of economic growth.

**Conclusion and suggestions.** The inflow of foreign investment into the banking sector of Uzbekistan, according to the results of the study, plays an important role in strengthening the financial stability of the economy, expanding credit resources and increasing the efficiency of inter-sectoral financing. The growth in the volume of total loans and the

diversification of shares by sector during the analyzed period confirm that foreign investment has had a significant impact on the banking sector. The structural changes in the loan portfolio indicate the stable development of economic activity in the segments of industry, agriculture, services and retail lending. In particular, the sharp increase in loans to individuals clearly demonstrates the effectiveness of foreign investment by banks in developing the retail market and expanding the financial capabilities of the population. At the same time, the relative decrease in the share of traditional real sector sectors such as industry and agriculture is explained by structural changes in the economy, investment flows directed to services and new sectors.

The inflow of foreign capital into the banking sector, along with improving the stability of the financial system, the strength of the resource base of banks, and the efficiency of lending activities, creates new investment opportunities in various sectors of the economy. In this regard, foreign investment is an important factor in bringing the banking sector closer to international financial standards, increasing liquidity, and ensuring the alignment of lending policy with target areas.

It is important to implement a number of strategic measures to stimulate the inflow of foreign investments into the banking sector of Uzbekistan and to manage them effectively. To increase the share of foreign capital in the banking sector, it is recommended to expand investment incentives, improve the system of tax incentives and financial guarantees. At the same time, maintaining a cross-sectoral balance in lending policy, stabilizing the share of loans in strategic sectors such as industry and agriculture, as well as developing the services and retail market segments will contribute to sustainable economic growth.

The development of retail and mortgage lending will stimulate activity in the retail segment, expand the financial capabilities of the population and help strengthen domestic demand. At the same time, in order to make the process of attracting foreign investments more effective, it is necessary to strengthen investment monitoring and the statistical base by banks and state bodies, and publish systematic and transparent data.

In addition, by expanding strategic cooperation with financial institutions and international financial organizations, opportunities for technological innovation, diversification of financial resources, and development of lending policies based on international experience will increase. As a result, the inflow of foreign investment will be a strategic tool not only for strengthening the financial stability of the banking system, but also for sustainable growth in the real sector of the economy, structural diversification, and improving the quality of financial services. The implementation of these proposals will significantly increase the level of attraction of foreign capital in the banking sector of Uzbekistan and its effective management.

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