TRENDS IN UZBEKISTAN'S BANKING SECTOR: LIQUIDITY, NON-PERFORMING LOANS, AND DEPOSIT GROWTH

Kengesov Diyorbek Umidovich
Postgraduate (Master's level) student of
Karakalpak State University named after Berdakh
E-mail: mr.kengesov@yandex.com
ORCID: 0009-0004-4822-5820
Nurniyazova Dilnoza Arzubay qizi
Undergraduate (Bachelor's level) student of
Karakalpak State University named after Berdakh
E-mail: dnurniyazova04@gmail.com
Khalmuratova Dilnaz Suleyman qizi
Undergraduate (Bachelor's level) student of
Karakalpak State University named after Berdakh
E-mail: xalmuratovadilnaz9@mail.com

Abstract: *This study analyses Uzbekistan's banking sector performance from 2017 through 2024, focusing on three key indicators: liquidity buffers, non-performing loans (NPLs), and deposit trends. Using official Central Bank and World Bank data, we conduct a descriptive time-series analysis, comparing state-owned versus private banks and households versus enterprises. We find that banks have maintained ample liquidity, with high Quality Liquid Assets and Liquidity Coverage Ratios well above regulatory minima, reflecting compliance with Basel III standards. Credit expanded rapidly, but credit quality weakened: NPLs rose sharply from historically low levels to around 4–6% of loans, especially in private banks. Deposits grew robustly (about nine-fold in UZS terms), driven mainly by corporate and government entities. These trends suggest a strengthening funding base but also emerging risks (especially rising private-sector NPLs). Policy measures should focus on strengthening risk management, bank governance, and financial inclusion to mobilize household savings.*

Keywords: *Banking sector; liquidity coverage ratio; non-performing loans; deposit mobilization; Uzbekistan; financial stability.*

Introduction. Banking sector stability is crucial for economic development. In Uzbekistan – an emerging market undergoing major reforms since 2017 – this is especially true. The government launched an ambitious economic transition in 2017, liberalizing trade and prices and undertaking extensive financial-sector reforms. New laws (2019) and a banking strategy (2020) have sought to modernize supervision and corporate governance, especially in state-owned commercial banks (SOCBs). In this context, analysing liquidity, NPLs, and deposits provides insight into banking soundness. For example, Uzbekistan's retail deposits remain very low (only ~10% of GDP in 2021) and far below regional peers, reflecting modest financial inclusion. Ensuring banks hold adequate liquid buffers (e.g. via the Liquidity Coverage Ratio, LCR) is a Basel III priority. Similarly, monitoring NPL trends is essential, since rising NPLs indicate weakening loan quality that can threaten stability. This paper thus examines 2017–2024 banking data to assess performance and emerging risks in Uzbekistan's financial sector.

Literature Review. Bank liquidity and regulation: Basel III introduced the Liquidity Coverage Ratio (LCR) to strengthen short-term liquidity resilience. The Basel Committee specifies that banks must hold high-quality liquid assets (HQLA) sufficient to cover 30-day cash outflows [1]. Numerous studies note that emerging-market banks tend to rely heavily on deposits for funding, due to underdeveloped capital markets. In response to binding LCR requirements, banks in emerging economies often boost retail deposits and equity funding. While this enhances stability (retail deposits are stable funding), regulators must watch competitive pressures on deposit rates [2].

Non-performing loans (NPLs): Globally, NPLs typically rise after economic shocks. World Bank and IMF research show that during COVID-19 many East Asian and emerging economies faced upticks in NPLs requiring forbearance or recapitalization. In Uzbekistan's case, empirical studies document a sharp recent increase in NPL ratios. Before 2020, Uzbek banks reported very low NPLs (around 1–2%) due to government forbearance on state-directed lending. After pandemic-related loan deferrals ended, NPLs surged: Babasyan et al. report NPLs peaking at ~6.2% by mid-2021 (from ~2.1% at end-2020) [3]. By 2022, NPLs were in the 4–6% range. Importantly, state-owned banks carry the bulk of loans: as of late 2023 roughly 71% of credit was in SOCBs, whose NPL ratio (~4.15%) remains higher than in private banks (~2.90%) [4]. More recent research confirms a noticeable 2021 jump in NPL ratios nationwide [5]. High NPLs threaten profitability and capital buffers, especially if provisioning lags.

Deposits and funding: A robust deposit base enhances financial stability. However, Uzbekistan's banks have historically had a low deposit-to-GDP ratio and heavy reliance on government or SOE deposits. By end-2020, total bank deposits were only ~19% of GDP, about 40% of which were government/SOE deposits. World Bank analysts note that despite a blanket guarantee, public distrust (past cash shortages, currency restrictions) kept household deposit holdings very low [6]. Recent literature emphasizes that mobilizing household savings is vital: burgeoning interest rates have lifted retail deposits in Uzbekistan, but starting from a low base [7]. In emerging markets more broadly, favourable policies (financial inclusion strategies, deposit insurance, stable payments systems) are cited as crucial to deepen the deposit base. Thus, deposit growth trends in Uzbekistan must be viewed in light of reforms aimed at financial inclusion and privatizing banks.

Research Methodology. We adopt a descriptive, data-driven approach. The analysis uses official Central Bank of Uzbekistan data and World Bank/IMF reports for 2017–2024 on banking indicators. Key metrics include: liquidity indicators (HQLA volumes, HQLA-to-assets ratios, LCR), asset quality (total loans, NPL volumes and ratios), and deposit volumes (total deposits and breakdown by depositor type). We compare results for state-owned versus private banks, and by depositor category (households vs. enterprises). Simple time-series comparisons (levels and growth rates) and ratio analysis underpin our study. This approach mirrors prior country analyses and stress-testing exercises (e.g. IMF FSAs), providing transparency on trends without advanced econometrics. All data are drawn from publicly available sources (Central Bank bulletins) and published tables.

Analyses and results.

Table 1. Liquidity Indicators of the Banking System of the Republic of Uzbekistan [9]

Date	Highly Liquid Assets, in billion UZS	Ratio of Highly Liquid Assets to Total Assets, in Percent	Liquidity Coverage Ratio (LCR), in percent (minimum requirement – 100 percent)
01.12.2017 y.	39 023,10	23,9	231
01.12.2018 y.	21 783,10	10,5	154,5
01.12.2019 y.	26 033,90	8,6	140,6
01.12.2020 y.	38 575,70	11,4	224,1
01.12.2021 y.	62 116,80	15	173,8
01.12.2022 y.	110 921,00	20,8	230,1
01.12.2023 y.	87 954,90	13,9	154,4
01.12.2024 y.	129 273,40	17,2	191

The table presents data on liquidity indicators of the banking system of the Republic of Uzbekistan from 2017 to 2024. It provides information on three metrics: highly liquid assets (in billion UZS), the ratio of highly liquid assets to total assets (in percent), and the liquidity coverage ratio (LCR), also expressed as a percentage.

Overall, the data indicates a general upward trend in the volume of highly liquid assets over the period, with some fluctuations in the ratio of these assets to total assets and the liquidity coverage ratio.

In 2017, highly liquid assets stood at approximately 39 trillion UZS, accounting for 23.9% of total assets, with a remarkably high LCR of 231%. However, in the subsequent two years, a downward trend is observed both in the volume and the ratio of liquid assets, reaching a low of 21.8 trillion UZS and 10.5% respectively in 2018. The LCR also dropped to 140.6% by 2019.

From 2020 onwards, the level of highly liquid assets showed a strong recovery, peaking significantly in 2024 at over 129 trillion UZS. This represents more than a threefold increase compared to 2020. Meanwhile, the ratio of highly liquid assets to total assets fluctuated, reaching its lowest point of 8.6% in 2019 and then peaking at 20.8% in 2022 before falling again to 13.9% in 2023.

As for the LCR, although it remained well above the 100% regulatory minimum throughout the period, it exhibited variability. After declining to 140.6% in 2019, it rebounded sharply to 224.1% in 2020, matching the initial levels observed in 2017. The ratio again declined in 2021 and 2023 but rose to 191% in 2024.

In summary, the liquidity position of Uzbekistan's banking sector has generally strengthened over the years in terms of absolute volume, though relative liquidity ratios displayed fluctuations. Despite this, the sector consistently maintained an LCR well above the required minimum, indicating robust short-term liquidity resilience.

Table 2. Non-performing Loans (NPLs) of Commercial Banks, in billion UZS [9]

Date	Loans			Non-performing loans (NPLs)		
	Total	Of which		Total	Of which	
		Banks with state ownership	Other banks		Banks with state ownership	Other banks
01.12.2020	270 716,50	239 120,20	31 596,20	6 518,20	5 893,40	624,8
01.12.2021	320 812,50	275 757,20	45 055,30	18 392,10	16 117,80	2 274,20
01.12.2022	382 078,10	318 787,90	63 290,10	15 344,10	13 828,40	1 515,70

01.12.2023	465 493,40	331 070,30	134 423,10	17 631,40	13 750,00	3 881,40
01.12.2024	525 886,50	363 938,60	161 947,90	22 446,60	14 981,90	7 464,70

The table presents data on the volume of total loans and non-performing loans (NPLs) issued by commercial banks in Uzbekistan from December 2020 to December 2024. The figures are given in billion UZS and are disaggregated between banks with state ownership and other banks.

Overall, there is a steady increase in the total volume of loans issued over the five-year period. However, NPLs also grew, with a more pronounced rise among other banks in recent years, indicating a potential shift in credit risk dynamics.

In December 2020, the total volume of loans stood at approximately 270.7 trillion UZS, with banks with state ownership accounting for the vast majority (239.1 trillion UZS), while other banks contributed a much smaller portion (31.6 trillion UZS). The total NPLs were 6.5 trillion UZS, of which nearly 5.9 trillion came from state-owned banks and only 624.8 billion from other banks.

By December 2024, total loans had increased to 525.9 trillion UZS, nearly doubling since 2020. Loans from state-owned banks rose to 363.9 trillion UZS, whereas loans from other banks surged to 161.9 trillion UZS, showing a more than fivefold growth. This significant expansion in the private banking sector’s lending activity is notable.

Regarding non-performing loans, the total volume increased to 22.4 trillion UZS by 2024. Interestingly, while NPLs of state-owned banks rose moderately from 5.9 trillion to 15 trillion UZS, the NPLs of other banks grew sharply from 624.8 billion to 7.5 trillion UZS. This suggests that although state-owned banks still dominate in volume, other banks experienced a much steeper rise in credit risk, particularly between 2022 and 2024.

In summary, while loan issuance by both types of banks has expanded significantly over the observed period, the rate of increase in non-performing loans is especially high among other banks, raising concerns about loan quality and risk management in the private banking sector.

Table 3. Deposits Attracted by Commercial Banks in National Currency, in billion UZS [9]

Period	Total	Of which:	
		From individuals	From legal entities
2017	599 909,20	78 187,30	521 721,90

2018	1 053 460,50	109 732,10	943 728,40
2019	1 435 832,40	157 994,70	1 277 837,70
2020	1 735 931,50	229 088,60	1 506 843,00
2021	2 567 152,40	368 122,50	2 199 029,90
2022	3 738 723,60	671 362,70	3 067 360,80
2023	4 481 692,00	989 268,50	3 492 423,50
2024	5 607 221,30	1 306 079,00	4 301 142,30

The table provides information on the total volume of deposits attracted by commercial banks in Uzbekistan from 2017 to 2024, measured in billion UZS. The data is further broken down into deposits from individuals and legal entities.

Overall, the total deposits increased significantly throughout the period, rising more than ninefold from 2017 to 2024. While both individuals and legal entities contributed to this growth, deposits from legal entities consistently made up the majority.

In 2017, the total amount of deposits was just under 600 billion UZS, with legal entities accounting for the bulk of this sum (around 522 billion UZS), and individuals contributing approximately 78 billion UZS. The total deposits surpassed the one trillion mark in 2018 and continued to grow steadily each year.

A particularly notable increase occurred between 2020 and 2021, with the total growing from 1.73 trillion to 2.57 trillion UZS, largely driven by both individual and legal entity contributions. The rise was even more substantial between 2021 and 2022, with an increase of over 1.1 trillion UZS in just one year.

By 2024, total deposits reached 5.6 trillion UZS. Deposits from legal entities amounted to more than 4.3 trillion UZS, representing the largest single component, while individual deposits grew to 1.3 trillion UZS, a dramatic increase compared to 2017.

In summary, commercial banks in Uzbekistan experienced strong growth in deposits over the observed period, with legal entities remaining the dominant source, although the role of individual savers also became increasingly significant.

Conclusion and suggestions. Our analysis indicates that Uzbekistan's banking sector has strengthened its liquidity position and expanded its funding base, but faces emerging asset-quality challenges. On the positive side, banks maintain high liquidity buffers (LCR well above 100%), and the deposit base has grown robustly. This suggests resilience against short-term shocks and an improving capacity to fund credit. However, the sharp rise in NPLs, especially in private banks, signals growing credit risk. The disproportionate NPL accumulation in private-sector banks (from 2.4T to 7.5T UZS) merits concern: it could erode profits and capital if not addressed. Moreover, the low deposit-to-GDP ratio (19% in 2020) implies continued vulnerability to shocks if foreign or government funding is disrupted.

We draw the following conclusions and recommendations:

Strengthen risk management and provisioning: Regulators should ensure banks (especially private lenders) build provisions and capital buffers against rising loan losses. Enhanced supervision and stress testing, as in the recent IMF/World Bank reviews, are advisable. Writing off or restructuring bad debts proactively, possibly via asset-management vehicles, can help clean up balance sheets.

Support healthy competition and privatization: Continued reform of SOCBs (governance improvements, eventual privatization) will level the playing field. Public banks must move away from policy lending and improve loan appraisal, so that they do not crowd out private-sector risk assessment. Private banks, in turn, should upgrade credit underwriting and risk controls to manage their rapid growth responsibly.

Encourage deposit mobilization: Policies to deepen financial inclusion will bolster bank funding and financial stability. This could include financial literacy campaigns, expanding branch and digital banking networks, and gradually relaxing deposit guarantees to incentivize savings in the banking system. World Bank experts stress that mobilizing retail deposits can enhance resilience. At the same time, monitoring competition for deposit rates is important to avoid destabilizing “deposit wars”.

Maintain prudent liquidity standards: The central bank should continue enforcing Basel III liquidity rules (LCR and NSFR) to keep the banking sector liquid. Recent data show Uzbekistan’s banks comfortably meet the LCR requirement, but this must be sustained. Liquidity stress tests and transparent reporting will support confidence in the system.

Monitor macro-financial linkages: Given the credit boom and NPL rise, macroprudential tools (e.g. countercyclical buffers, limits on credit growth to vulnerable sectors) may be warranted to pre-empt overheating. Close coordination with fiscal policy is also key, since government financing and guarantees remain large.

In summary, Uzbekistan’s banking system exhibits strong liquidity and deposit growth, reflecting the benefits of reform and macro stability, but also latent risks from deteriorating asset quality. Policymakers and bank managers should prioritize risk mitigation and financial deepening in tandem, ensuring that the banking sector continues to support sustainable economic growth without undermining financial stability.

References:

1. Basel Committee on Banking Supervision. (2013). Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools. Bank for International Settlements. URL: https://shorturl.at/7u7V2.
2. Mashamba, T. (2021). Liquidity regulations and bank behavior: An emerging markets perspective. Journal of Governance and Regulation, 10(4), 194–211. https://doi.org/10.22495/jgrv10i4siart1.
3. Babasyan, D., Gu, Y., & Melecky, M. (2022). Late Banking Transitions: Comparing Uzbekistan to Earlier Reformers (Policy Research Working Paper No. 9984). World Bank. URL: https://shorturl.at/X2iXH.
4. Isakov, O. (2024). Factors affecting non-performing loans: Empirical evidence from commercial banks in Uzbekistan. Journal of Economic and Financial Analysis, 8(2), 1–21. URL: https://shorturl.at/LVXUn.
5. Rustamov, J. (2025). Trends and Patterns of Accumulation of Non-Performing Loans in the Banking Sector of Uzbekistan. Journal of Eurasian Economies, 4(1), 31-37. DOI: https://doi.org/10.36880/J04.1.0144.
6. World Bank. (2022). Uzbekistan Financial Sector Reform Project (P173619) – Project Appraisal Document (Report No. PAD4468). World Bank. URL: https://shorturl.at/z0Vdc.
7. Babasyan, D., Melecky, M., & Podchoeva, N. (2023, January 25). From livestock to lifelong savings: Improving financial inclusion in Uzbekistan [Blog post]. World Bank. URL: https://shorturl.at/oaSFy.
8. Сарсенбаев, Б., & Алланиязова, Н. (2024). ФОРМИРОВАНИЕ ПРОГНОЗНЫХ ЗНАЧЕНИЙ ДОХОДОВ БЮДЖЕТА УЗБЕКИСТАНА. Экономическое развитие и анализ, 2(8), 399-404.
9. www.cbu.uz – Official website of The Central Bank of the Republic of Uzbekistan.