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REPUBLIC OF UZBEKISTAN

FINANCIAL SECTOR ASSESSMENT

July 2025

Prepared By
Finance, Competitiveness, and Investment Global Practice and The Europe and Central Asia Regional Vice Presidency

A joint IMF-World Bank mission led by Ms. Gunhild Berg, Word Bank, and Mr. Vassili Prokopenko, IMF, visited Uzbekistan from August 28-30, 2024, November 5-26, 2024, and February 26-March 11, 2025, for Uzbekistan's first Financial Sector Assessment Program (FSAP). This report summarizes the main findings of the missions, identifies key financial sector vulnerabilities and development opportunities, and provides policy recommendations.

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GLOSSARY

AML/CFT	Anti-Money Laundering/Combatting the Financing of Terrorism
APF	Accumulated Pension Fund
AQR	Asset Quality Review
ASEAN	Association of SouthEast Asian Nationals
ATM	Automatic Teller Machine
B2B	Business to Business
B2P	Business to Person
BDB	Business Development Bank
BCBS	Basel Committee for Banking Supervision
BCP	Basel Core Principles
BNPL	Buy Now Pay Later
BRLL	Banking Resolution and Liquidation Law
CBU	Central Bank of Uzbekistan
CCA	Caucasus and Central Asia
CCyB	Countercyclical Capital Buffer
CAR	Capital Adequacy Ratio
CCP	Central CounterParty
CDD	Customer Due Diligence
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
CSD	Central Securities Depository
DFI	Development Finance Institution
DGA	Deposit Guarantee Agency
DIS	Deposit Insurance Scheme
D-SIB	Domestic Systemically Important Bank
EAG	Eurasian Group on Combatting Money Laundering and CFT
EDC	Entrepreneurship Development Company
ELA	Emergency Liquidity Assistance
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSSA	Financial System Stability Assessment
FSR	Financial Stability Report
FX	Foreign Exchange
G2P	Government to Person

GDP	Gross Domestic Product
GHG	GreenHouse Gas emissions
GRBS	Guidelines on Risk-Based Supervision
IADI	International Association of Deposit Insurance
IFI	International Financial Institution
IFRS	International Financial Reporting Standard
IMF	International Monetary Fund
IPO	Initial public offering
IOSCO	International Organization of Securities Commission
ISSB	International Sustainability Standards Board
KA	Key Attributes
LC	Local Currency
LCBU	Central Bank Law
LCR	Liquidity Coverage Ratio
MFBs	Micro Finance Banks
MFOs	Micro Finance Organizations
MoEF	Ministry of Economy and Finance
MOJ	Ministry of Justice
MOU	Memorandum of Understanding
MSME	Micro, Small and Medium Enterprises
MTPL	Motor Third-party Liability
NAPP	National Agency for Perspective Projects
NBCI	Non Bank Credit Institution
NBFI	Non Bank Financial Institution
NFC	Non financial corporation
NIM	Net Interest Margin
NPL	Non-Performing Loan
NRA	National money laundering and terrorism financing (ML/TF) Risk Assessment
NSFR	Net Stable Funding Ratio
P2P	Person to Person
PCG	Partial Credit Guarantee
PFMI	Principles for Financial Market Infrastructures
QQB	Qishloq Qurilish Bank
RAQP	Regulation on Asset Quality and Provisioning
RBS	Risk-Based Supervision
ROA	Return on Assets

ROE	Return on Equity
RRM	Regulation on Risk Management
RTGS	Real Time Gross Settlement System
RWA	Risk-Weighted Assets
SAMA	Agency for Management of State Assets
SME	Small and Medium Enterprises
SOCB	State-Owned Commercial Bank
SOE	State-owned Enterprise
SPO	Secondary Public Offering
TF	Terrorism Financing
TSA Toshkent	Republican Stock Exchange Tashkent
UFRD	Uzbekistan Fund for Reconstruction and Development
UzMRC	Mortgage Refinancing Company of Uzbekistan
UZS	Uzbek som
WB	World Bank

PREFACE

An International Monetary Fund (IMF) and a World Bank (WB) team visited Uzbekistan during August 28-30, 2024, November 5-26, 2024, February 26-March 11, 2025, to conduct an assessment under the Financial Sector Assessment Program (FSAP). The team was led by Gunhild Berg (WB Mission Chief), Vassili Prokopenko (IMF Mission Chief), Jane Hwang (WB Deputy Mission Chief) and Piyabha Kongsamut (IMF Deputy Mission Chief). The mission included Zsolt Bango, Ezio Caruso, Fernando Dancausa, Karol Karpinski, Danita Pattemore, Kiyotaka Tanaka, Alena Zielinski (all WB), Michael Fuchs (World Bank expert consultant), Etibar Jafarov, Kathleen Kao, Vasilika Kota, Tobias Lindqvist, Meryem Rhouzlane, Sergio Sola (all IMF), and Erika Balaikiene, (IMF expert consultant). The mission assessed financial sector risks and vulnerabilities, the quality of financial sector supervision, financial safety net arrangements, the role of the state, non-performing loans management and resolution, long-term finance, payments systems and access to finance.

The mission met with CBU Governor Ishmetov, former CBU Governor Nurmuratov, deputy Minister of Economy and Finance Norkulov, former deputy Minister of Economy and Finance Karshibayev, and other senior officials and representatives from the CBU, the Ministry of Economy and Finance (MoEF), National Agency of Perspective Projects (NAPP), Deposit Guarantee Agency (DGA), Ministry of Justice (MoJ), Ministry of Employment and Poverty Reduction, Ministry of Digital Technologies, Agency for Managing State Assets (SAMA), Entrepreneurship Development Company (EDC), Mortgage Refinance Company of Uzbekistan (UzMRC), Uzbekistan Fund for Reconstruction and Development (UFRD), Stock Exchanges, and various private and public sector representatives including financial institutions, international financial institutions, credit bureaus, payment service providers, legal, consulting and accounting firms, rating agencies, various financial sector associations, and the Chamber of Commerce. The team would like to thank the authorities for the excellent cooperation and fruitful discussions during the three missions.

This is the first FSAP for Uzbekistan.

This report was prepared by Gunhild Berg and Jane Hwang, with contributions from the Uzbekistan FSAP team.

EXECUTIVE SUMMARY

1. Uzbekistan's financial system has been undergoing significant changes since 2017. Reforms were underpinned by the modernization of the legal framework in 2019, which encompassed the adoption of new laws for the central bank and banking sector. The 2020 banking sector strategy aimed to increase the role of private banks and improve the operations of the remaining state-owned commercial banks (SOCBs), including by shifting their lending to market terms, strengthening risk management, and improving corporate governance. At the same time, the authorities encouraged the growth of the non-bank financial sector and tasked the National Agency for Perspective Projects (NAPP) to oversee insurance and capital markets. The transformation of the financial sector is an important part of broader economic reforms, which include exchange rate unification, price liberalization, and privatizations.

2. Despite reforms, the state continues to play the dominant role in the financial system, which leads to inefficiencies, elevated credit risk, and high fiscal costs. The financial sector remains dominated by the state both in terms of ownership and through directed and preferential lending programs. These programs undermine the financial sector's ability to allocate resources effectively, increase credit risk, especially in SOCBs, and have fiscal implications. Since 2017, the SOCBs required recapitalization by the government ranged from 0.4 to 2.0 percent of GDP per year. Solvency stress tests conducted by the FSAP show that the main vulnerability relates to credit risk and confirm weaknesses of SOCBs which have traditionally reported lower asset quality than private banks.

3. Further reducing the role of the state and ensuring that remaining state-owned institutions and government programs are market-enabling should be a priority. The authorities should renew privatization efforts in line with the intention of the 2020 banking sector strategy, which would imply expediting the privatization of five SOCBs and the conversion of one SOCB into a wholesale institution. The three remaining SOCBs ('policy banks') would benefit from adopting mandates that define the areas in which they provide additionality, completing corporate governance reforms, improving credit risk management, and ensuring operation on a level playing field with the privately-owned banks. Directed and preferential lending programs should be transparently evaluated, gradually phased out, and replaced with market-enabling initiatives, focused on private capital mobilization, in tandem with further state-owned enterprise (SOE) reform. The state-owned development finance institutions (DFIs) could play a stronger role as wholesale institutions, including through offering risk sharing mechanisms.

4. Efforts to improve the macroprudential policy framework should continue. Financial stability is a shared mandate between the Central Bank of Uzbekistan (CBU) and the government, and the planned establishment of a Financial Stability Board (FSB) should enhance inter-agency cooperation. The CBU has developed a good framework for analyzing systemic risk but is facing some data gaps. The macroprudential toolkit could be bolstered by introducing capital buffers and strengthening the existing borrower-based measures.

5. Despite enhancements, the regulatory and supervisory frameworks for banks need further strengthening and robust implementation. Many new regulations were adopted in recent years, which led to improvements in banks' corporate governance and risk management, and the CBU also adopted guidelines on risk-based supervision. Nevertheless, further legal and regulatory reforms are needed. It would be particularly important to safeguard CBU's operational independence, improve supervisory reporting, strengthen capital requirements, align asset classification with international standards, strengthen on-site inspections, implement consolidated supervision, and enhance the cooperation between CBU and NAPP.

6. Deficiencies in asset classification and provisioning practices undermine banks' resilience and require regulatory and supervisory reforms. Regulatory gaps allow banks to significantly under-report non-performing loans (NPLs), with the share of problem assets reported under IFRS more than twice the size of what is reported under prudential standards. Although partially explained by a conservative write-off policy, provisions are low, limiting banks' ability to deal with adverse economic scenarios. Many deferred and recently upgraded substandard loans may require downgrades and higher provisions, affecting profitability and capital. Ensuring accurate asset classification requires strengthening the prudential framework and scrutinizing banks' portfolios. In parallel, NPL resolution should be supported by improved debt transfer and debt collection regimes to encourage NPL sales to private investors, as well as by an adequate implementation of the new Insolvency Law.

7. Insurance and capital markets oversight has been strengthened, but NAPP would benefit from increased capacity and enforcement powers. Insufficient capacity, low staffing, and limited enforcement tools are hampering NAPP's ability to adequately supervise the insurance sector and capital markets. Several updates to legislation, including the Law on Insurance Activities and the Capital Market Law, are underway. NAPP should develop insurance-specific regulations on corporate governance, solvency, and consumer protection, while building confidence, including by enforcing the increased share capital requirements and timely exercising sanctioning powers.

8. The anti-money laundering and combatting the financing of terrorism (AML/CFT) regime is generally effective, and efforts to address remaining weaknesses should continue. Assessed in 2022 by the Eurasian Group on Combatting Money Laundering and Financing of Terrorism (EAG), the AML/CFT regime was found to be largely effective. Further strengthening the AML/CFT regime should continue, including through imposition of sanctions for legal persons, greater transparency of beneficial ownership, and tracking and responding to emerging risks related to virtual assets.

9. The crisis management framework should be supported by further alignment with international best practices. The planned establishment of the FSB should enhance contingency planning. Recovery planning should be regulated and extended to all banks with appropriate proportionality. The resolution regime should be strengthened by enacting the Bank Resolution and Liquidation Law (BRLL), establishing a resolution function within the CBU, and phasing in resolution planning and resolvability assessment. Operationalizing the deposit insurance scheme and the arrangements for emergency liquidity assistance (ELA) are essential.

10. Access to finance for MSMEs is hindered by several challenges. The enabling environment is broadly conducive, but challenges include high interest rates and a shallow non-bank sector. The CBU should strengthen and expand supervision to all non-bank credit providers to avoid regulatory arbitrage. New deposit-taking microfinance banks should be properly supervised to avoid undue risks. The DFIs could play a more catalytic role, including through risk sharing mechanisms. Specifically, the Entrepreneurship Development Company's (EDC) role should be narrowed to that of a wholesale institution under appropriate CBU oversight, while strengthening corporate governance.

11. Addressing gaps in financial market infrastructures and strengthening oversight will support greater use of digital payments. CBU-operated payment systems currently do not support straight-through processing for large-volume recurrent payment streams, including government-to-person (G2P) and business-to-person (B2P) payments, while card-based person-to-person (P2P) payments are more expensive than account-to-account payments in peer economies. Enhancing the CBU-operated systems to support such functionalities would increase competition and reduce prices. The CBU should operationalize an oversight framework for payment systems and collaborate with other regulators on the oversight of securities settlement infrastructure, prioritizing the Principles for Financial Market Infrastructures (PFMI) self-assessment of most important systems. The merchant discount rate caps should be replaced with more targeted mechanisms.

12. Capital market and insurance sector development require concerted efforts. While the enabling environment is largely conducive, the sovereign yield curve is not yet a reliable pricing reference. A credit enhancement facility could spur the corporate securities markets while the free float of listed companies and liquidity in the equity market could be improved through a pipeline of diversified Public Offerings. Changes to compulsory motor third-party liability (MTPL) insurance and development of Takaful insurance could support the insurance market and deepen the institutional investor base. Furthermore, a more diversified and less risk-averse investment policy for the Accumulated Pension Fund (APF) managed by Xalq Bank could strengthen the demand side for corporate securities. Recommendations on institutional investor base development would also support efforts towards private sector-led growth.

13. Looking ahead, financial stability and development objectives need to be carefully balanced to support sustainable, private sector-led economic growth. The authorities have strengthened the institutional and operational frameworks in support of financial stability; however, concerns about the build-up of credit risk in the banking system require attention and maintaining independence of the CBU and NAPP is crucial. While enhancing financial inclusion is a worthy objective, the authorities are encouraged to use more market-friendly mechanisms rather than directed and preferential lending given its limited effectiveness and trade-off with financial stability. Such market-enabling mechanisms can include stronger reliance on wholesale lending and partial credit guarantees through reformed DFIs. Combined with SOCB privatization efforts and further reform of SOEs, this would support private sector-led growth. In addition, financial inclusion and deepening can be enhanced by further developing the non-bank financial sector, using the payments system to increase efficiency, and developing long-term sources of financing. Combined, these reforms can all play important roles in supporting sustainable economic growth.

Table 1. Key FSAP Recommendations

	Recommendation[1]	Agency	Priority	Timing[2]
	Banking Regulation and Supervision			
1	Safeguard CBU's operational independence (¶26)	CBU	H	I
2	Enhance the evaluation of banks' risk profiles and internal controls during off-site supervision and on-site inspections, and improve supervisory reporting (¶27, 29)	CBU	H	MT
3	Accelerate the implementation of consolidated supervision (¶28)	CBU, NAPP	H	ST
	Non-Performing Loan Management and Resolution			
4	Ensure accurate asset classification by addressing regulatory misalignments regarding the NPL definition, forborne exposures and classification rules (¶52)	CBU	H	I
5	Ensure that high NPL banks reach the objectives set in the NPL reduction plans and that all banks comply with NPL management standards set in RRM, including the operationalization of workout units (¶52)	CBU	H	ST
	Bank Resolution, Crisis Management and Financial Safety Net			
6	Establish a fully-fledged resolution regime by: (i) enacting the BRLL (ST), harmonizing the legal powers provided in the law for bank resolution and liquidation and (ii) operationalizing the framework (MT) (¶45)	CBU	H	ST/MT
7	Operationalize the new deposit insurance framework (¶46)	MoEF, CBU, DGA	M	MT
	Role of the State			
8	Gradually phase out directed and preferential lending and place greater reliance on market pricing of credit risk (¶17)	MoEF	H	MT
9	Expedite privatization of SOCBs in line with the 2020 Strategy (¶13)	MoEF	H	MT
10	Strengthen remaining policy banks by: i) introducing explicit mandates focused on additionality, ii) completing corporate governance reforms, iii) improving credit risk assessment and management, and (iv) ensuring operation on a level playing field with the private sector (¶18-19)	MoEF, SOCBs	H	MT
	Insurance and Capital Markets Development			
11	Strengthen NAPP's capacity and enforcement power in capital markets and insurance supervision (¶34-35)	Pres. Office, NAPP	H	ST
12	Develop insurance specific regulations on corporate governance, internal controls, consumer protection, conduct of business and risk-based capital and supervision (¶35)	NAPP	H	MT
13	Strengthen the LC sovereign yield curve by improving the benchmark bond issuance program supported by liability management operations (¶67, 70)	MoEF	H	MT
14	Strengthen the demand side by diversifying pension investment policy (¶68)	MoEF, NAPP	H	ST
	Payments Systems			
15	Finalize and operationalize the payment systems oversight framework and expedite the PFMI self-assessment of the most important systems (¶37)	CBU, MoEF	H	ST
16	Enhance the Instant Payments System and MUNIS to support P2P functionalities and straight-through processing of G2P and B2P payments (¶61-62)	CBU	M	ST
	MSME Access to Finance			
17	Standardize MSME definition and support market-based MSME programs (¶54)	MoEF, CBU	H	ST
18	Strengthen and expand supervision to all non-bank credit providers and ensure microfinance banks are subject to adequate oversight (¶55-57)	CBU	H	ST
19	Restructure EDC as a wholesale-only DFI providing partial credit guarantees under CBU oversight, and strengthen EDC's corporate governance (¶59)	MoEF, EDC, CBU	M	MT

[1] More detailed recommendations are available in the FSA, the Technical Notes and the Detailed Assessment Report.

[2] I: Immediately; ST: short term= less than 1 year; MT: medium term= 1-5 years

MACROFINANCIAL SETTING

A. Context

1. Since 2017, Uzbekistan has been undertaking major economic reforms. These included exchange rate unification, price liberalization, privatizations, enhancements to the business environment, and greater openness to trade and foreign investments. The reforms were underpinned by the modernization of the legal framework, including the adoption of new laws on the central bank and banking. A banking sector reform strategy for 2020-25 (the "Strategy") aimed to significantly increase the role of private banks and improve the operations of the remaining SOCBs. The authorities regard financial sector development as an essential element of a successful transition to a market-based economy.

2. The FSAP took place against the backdrop of a strong and resilient economy. Despite sizable external shocks, including the COVID-19 pandemic and Russia's invasion of Ukraine, the annual average GDP growth was 5.7 percent during 2018-23 (Annex Table 1), supported by ambitious structural reforms, large inflows of capital and remittances, and favorable terms of trade. Strong growth continued in 2024, driven by construction, industry, and services. This growth has been accompanied by robust job creation, strong wage growth, and declining poverty. However, informality remains prevalent, with about 40 percent of total employment classified as informal. Despite the broadly stable nominal exchange rate, inflationary pressure remains strong, partly driven by the energy price reform in May 2024.

B. Financial Sector Overview

3. The bank-centered financial sector has been growing rapidly since 2017. Over the past seven years, total assets of financial institutions in Uzbekistan increased by around nine times in nominal terms. Bank assets represent around 95 percent of total financial sector assets, or 53 percent of GDP (Table 2). At the end of 2024 Uzbekistan had 36 banks, including nine SOCBs, eight private foreign banks and 19 private domestic banks. Bank assets are dominated by loans, while deposits account for only 40 percent of funding (Annex Figures 1 and 2). The composition of bank loans has become more diversified in recent years due to a significant increase in household lending, which has reached around one third of total loans. Notable progress has been achieved in lengthening the maturity of bank assets and liabilities as well as reducing dollarization of bank balance sheets, although the share of foreign exchange (FX) loans at 44 percent of total loans remains relatively high (Annex Figure 3). Foreign presence in the financial sector is limited though several banks have been increasing their external funding in recent years.

4. The non-bank financial sector and the capital markets remain shallow and underdeveloped. As of December 1, 2024, there were 35 life and non-life insurance companies, 100 microfinance organizations (MFOs), 92 pawnshops, and 37 leasing companies. Collectively, they comprise 3.5 percent of total financial sector assets. A new type of financial institution—microfinance banks (MFBs)—was introduced by legislation in early 2025, but no MFB license has been issued yet. There are two pension schemes: i) a public pension scheme operated under the Ministry of Economy

and Finance (MoEF) and ii) an accumulated pension fund managed by Xalq Bank. Pension sector assets amount to less than one percent of financial sector assets. The investment fund industry is nascent. According to the Central Securities Depository (CSD), there are 9 collective investment schemes—7 investment funds and 2 mutual funds—however, their aggregate size remains marginal. Capital markets are at an early stage of development.

Table 2. Uzbekistan: Financial System Structure

(in billions of soms, unless otherwise indicated)

Financial corporations	January 1, 2017				January 1, 2020				December 1, 2024			
	Number	Assets	% of system	% of GDP	Number	Assets	% of system	% of GDP	Number	Assets	% of system	% of GDP
I. Commercial banks	27	84,075	98.4	32.9	30	272,727	96.3	45.9	36	769,330	94.9	52.9
State owned	10	64,982	76.1	25.4	13	230,126	81.3	38.7	9	503,187	62.0	34.6
Other	17	19,093	22.4	7.5	17	42,600	15.0	7.2	27	266,143	32.8	18.3
II. Other financial corporations	102	1,343	1.6	0.5	191	10,432	3.7	1.8	265	41,659	5.1	2.9
Insurance companies	26	1,184	1.4	0.5	39	3,460	1.2	0.6	35	11,813	1.5	0.8
Leasing companies*					34	4,225	1.5	0.7	37	8,800	1.1	0.6
Microfinance banks	--	--	--	--	--	--	--	--	0	0	0.0	0.0
Microfinance organizations	29	94	0.1	0.0	56	711	0.3	0.1	100	7,864	1.0	0.5
Pension funds 1/									1	7,385	0.9	0.5
Collective investment schemes 1/									9	10	0.0	0.0
Pawnshops	47	66	0.1	0.0	61	130	0.0	0.0	92	498	0.1	0.0
Enterprise Devt Company (EDC)					1	1,907	0.7	0.3	1	5,289	0.7	0.4
III. Total financial system	129	85,418	100.0	33.4	221	283,159	100.0	47.6	301	810,989	100.0	55.8
Memorandum items:												
Republican CCY Exchange		0		0.0		41		0.0		293		0.0
Republican Stock Exchange (market cap) 1/		60		0.0		51		0.0		242		0.0
Mortgage Refinance Company (UzMRC)						409		0.1		5,574		0.4
Uz Fund for Reconstruction & Devt (UFRD)		80,063		31.3		242,226		40.7		292,189		20.1

Sources: Annual reports, CBU, NAPP.
1/ as of January 1, 2025.
* Includes only members of Uzbekistan Lessors Association.

5. Despite changes, the government retains significant ownership in the financial sector. Nine SOCBs continue to dominate the system with a market share of 62 percent of total financial system assets. The government also holds sizable shares in the insurance and leasing sector and owns three DFIs. Progress in bank privatization has been slower than expected, hampered by external factors including the COVID-19 pandemic and geopolitical factors. Three banks were privatized in 2023-24, and the authorities are in the process of selling stakes in four other banks. Rather than retaining three policy banks under government ownership, as envisioned under the Strategy, the current intention is to retain five banks. SOEs also dominate the real economy in many sectors (e.g., utilities, mining).

6. The CBU and NAPP are the institutions overseeing the financial sector. The CBU is responsible for developing and implementing monetary policy, overall banking sector stability, and regulating and licensing credit organizations - commercial banks, MFBs, MFOs, and pawnshops. Leasing companies are unregulated. The CBU also operates and oversees the payments system and is responsible for financial consumer protection. The NAPP is responsible for regulation and licensing of crypto-assets, capital markets, insurance, e-commerce, lotteries, and gambling activities. The MoEF plays an important role in formulating financial sector policy and overseeing the implementation of

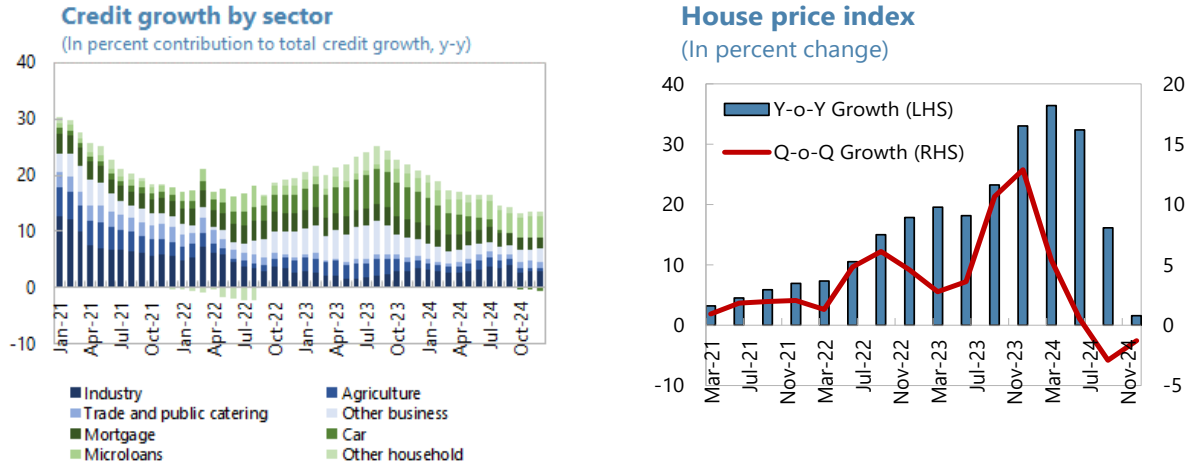
financial sector reforms. The Deposit Guarantee Agency (DGA) insures bank deposits, while the Policyholder Protection Scheme, operated by NAPP, provides protection for insurance policyholders.

C. Performance of Banks

7. Since 2017, banks have diversified from predominantly lending to corporates. Though corporate lending still constitutes around two thirds of bank loans, lending to households has expanded rapidly, spurred by trade and financial liberalization (e.g., allowing borrowing for imported goods), strong household income growth, and preferential lending programs. Forbearance and other supportive measures adopted by the authorities during the COVID-19 pandemic also helped sustain credit growth.

8. Rapid credit growth, especially consumer lending, moderated in 2024 in response to macroprudential policy actions. Growth in mortgage lending, which is mostly carried out on preferential terms, also contributed to house price growth. In 2022-23, banks expanded aggressively into car loans (Figure 1). Concerned about rising household indebtedness and banks' credit origination procedures, the CBU adopted a series of macroprudential measures in 2023-24 aimed at containing risky lending practices (Annex I). Household lending growth has subsequently slowed, except microloans which are provided under less stringent conditions. Buy-now-pay-later (BNPL) activity provided by unregulated retail companies has emerged as a new area of concern, with limited data visibility.

Figure 1. Credit Growth and House Price Growth



Source: Central Bank of Uzbekistan, IMF staff estimates.

9. Reported bank performance indicators appear positive. The aggregate bank capital adequacy ratio (CAR) has been above 17 percent since 2020, against the regulatory minimum of 13 percent (Annex Table 2). Profitability weakened in 2024 due to higher non-interest expenses, while interest rate spreads remained broadly stable (Annex Figure 4). Lending and deposit rates do not appear to be responsive to monetary policy actions, though interest rate spreads have come down since 2019 (Box 1). While bank soundness indicators have been improving, they remain somewhat weaker than in their regional peers (Annex Figure 5).

10. Performance differs significantly between state-owned and other banks. Domestic privately-owned and foreign-owned banks have been generally more profitable and liquid than SOCBs (Annex Figure 6, Table 3). The official NPL ratio and the substandard loans to total loans ratio have traditionally been higher in SOCBs compared to private banks, while provisions in SOCBs have been significantly lower. This trend has been reversed recently, largely due to recent privatizations. The loan-to-deposit ratio is particularly high for SOCBs, reflecting reliance on long-term external funding, which also contributes to high dollarization of both assets and liabilities.

Table 3. Uzbekistan: Financial Indicators by Groups of Banks
(in percent, as of 2024)

	System	SOCBs	Dom. priv.	Foreign
Share of banking system assets	100.0	65.5	23.5	11.1
Regulatory capital to RWA	17.4	16.6	18.5	19.2
NPL ratio	4.0	3.9	2.6	7.5
NPLs on FX loans*	3.4	3.2	1.4	10.3
NPLs on som loans	4.5	5.5	2.2	4.3
Substandard loan ratio	17.3	21.5	9.1	5.6
IFRS Stage 3 loans/loans (end 2023)	7.8	8.1	2.6	15.2
Loan loss provisions/NPLs	45.4	48.2	32.1	45.3
10 Largest borrowers/capital	113.4	142.1	63.5	77.3
Lending to/Total: Large enterprises	39.3	43.9	33.6	18.9
State-owned enterprises	13.1	17.2	1.8	9.7
SMEs	10.6	11.7	8.6	7.2
Households	33.3	25.3	46.2	61.5
Lending on preferential terms/total loans**	29.5	38.4	3.1	20.2
Return on assets	1.4	0.1	5.1	1.3
Return on equity	9.2	1.1	30.9	7.5
Cost to income ratio	74.3	72.5	78.6	71.2
Lending-deposit rate spread**	4.1	1.5	7.2	4.3
Loans to deposits	172.7	237.2	101.0	126.6
Liquid assets/ST liabilities	42.6	35.1	52.1	59.5
Liquid assets/total assets	18.7	14.3	25.9	28.8
FX loans/total loans	42.9	48.3	33.1	26.7
FX liabilities/Obligations*	49.8	55.1	36.5	40.1
Borrowing ex deposits/total liabilities	43.3	53.2	18.0	32.8
Net open FX position relative to capital	-0.4	-1.9	1.8	2.0

Source: CBU, Fund staff calculations.
* As of September 2024. Obligations defined as liabilities excluding capital.
** as of June 2024

11. NPL ratios have remained moderate despite a post-pandemic surge. The official NPL ratio surged during the pandemic and reached 6.2 percent in August 2021 but decreased since then and stood at 4.2 percent in October 2024 (Figure 2). This positive trend is explained by a combination of factors, including strong credit growth, conservative loan write-off requirements, and significant NPL upgrades to substandard loans, which reached 16.5 percent of total loans in August 2024. In absolute terms, however, total distressed assets have consistently increased and reached UZS 111 trillion as of December 2023, a net increase of UZS 75 trillion since 2020 (Figure 3).

Figure 2. NPL Ratios
NPL ratios increased because of the COVID-19 pandemic but decreased thereafter.

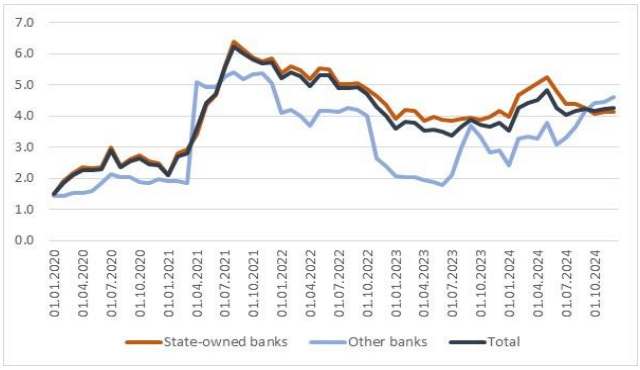
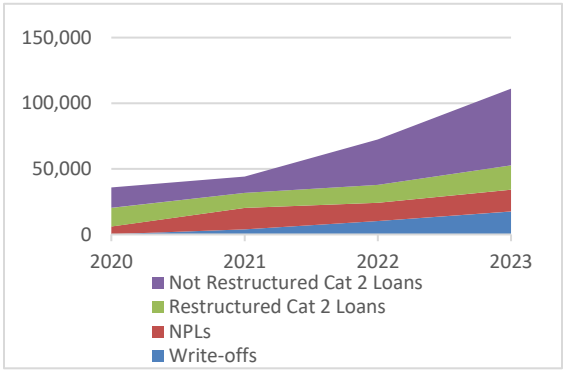


Figure 3. Distressed Assets, UZS billion
Distressed assets have increased significantly in nominal terms.



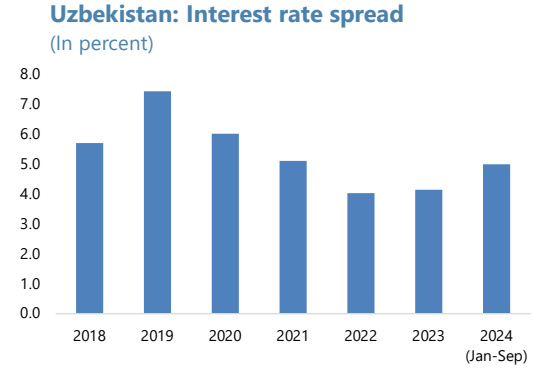
Source: CBU, FSAP staff calculation

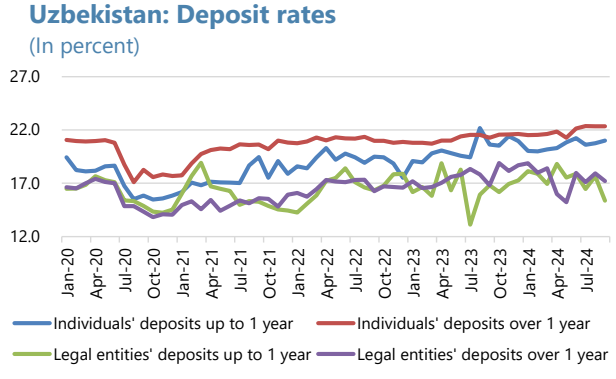
12. Asset quality is overstated, which represents a significant concern. The system's Stage 3 ratio under international accounting standards (IFRS) stood at 7.8 percent as of December 2023, which is twice as high as the NPL ratio based on prudential data (Annex Figures 7 and 8). Several factors explain this divergence. First, accounting and prudential reporting systems adopt different approaches with respect to key policies, including write-offs and interest accrual on NPLs. Second, and more importantly, shortcomings in prudential regulations explain a significant part of the divergence. NPLs can be upgraded to performing status without observing mandatory cure periods, and gaps observed in the definition of forbearance allow banks to restructure exposures without completing any downgrades. Banks' have taken advantage of these gaps and often rely on loan deferrals featuring short grace periods to restructure distressed exposures, avoiding downgrades and further provisions. Multiple restructurings over the same distressed exposure are also allowed without NPL recognition. In addition, the quality of restructured loans—which represent around 15.5 percent of total loans in December 2024—is questionable considering the significant volumes of NPL upgrades observed since 2020. Finally, there is reason to believe that NPLs are particularly under reported in SOCBs, as indicated in the case of the privatization of Ipoteka bank, where reported Stage 3 loans rose from 7.1 percent of gross loans to 18.7 percent following completion of the privatization transaction in 2023.

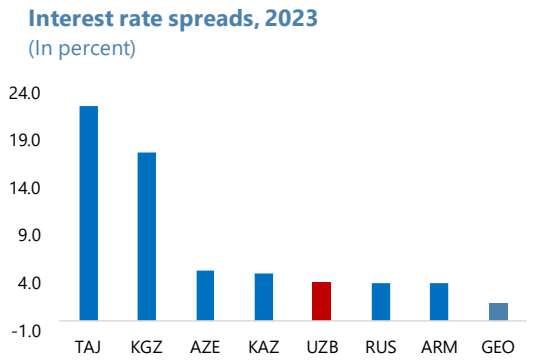
Box 1. Interest Rate Spreads in Uzbekistan

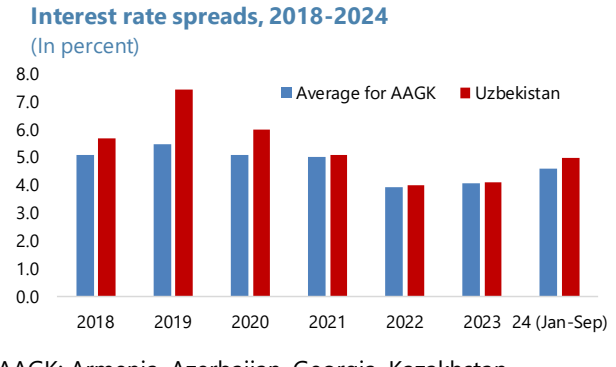
Uzbekistan's bank interest rate spread (the difference between the interest rates charged on loans and the interest rates paid on deposits) has been generally high. The spread increased sharply in 2018-19 and narrowed gradually, falling to 4 percentage points in 2022-23, reflecting economic stabilization, strong growth, and higher though still limited competition in the banking sector. The spread widened to 5 percent in the first nine months of 2024 due mainly to declines in interest rates on legal entities' deposits while lending rates have changed by less.

Uzbekistan's interest rate spread is generally in line with that of other countries in the region. In 2023, it was significantly higher than in Georgia, similar to most other regional peers, and much lower than in Tajikistan and the Kyrgyz Republic. Such high interest spreads in the region reflect bank-specific factors such as high operating costs, credit and liquidity risks, market structure, and the macroeconomic environment (see Almarzoqi and Ben Naceur (2015)).





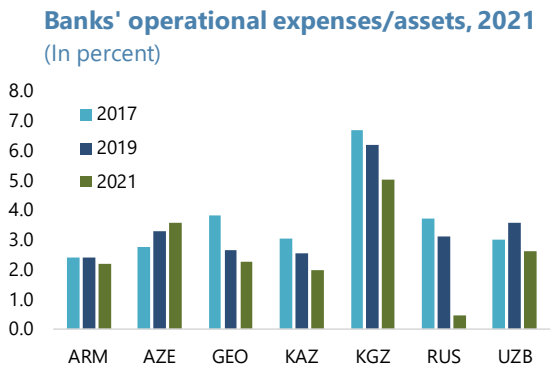


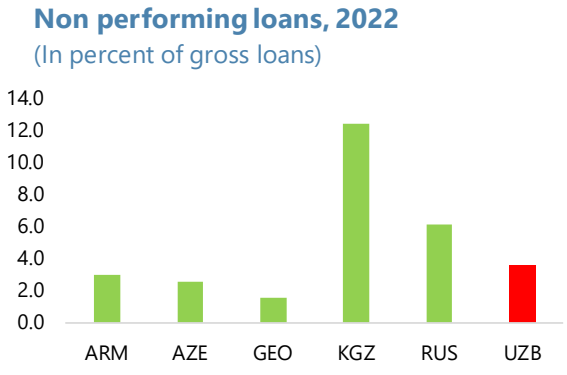


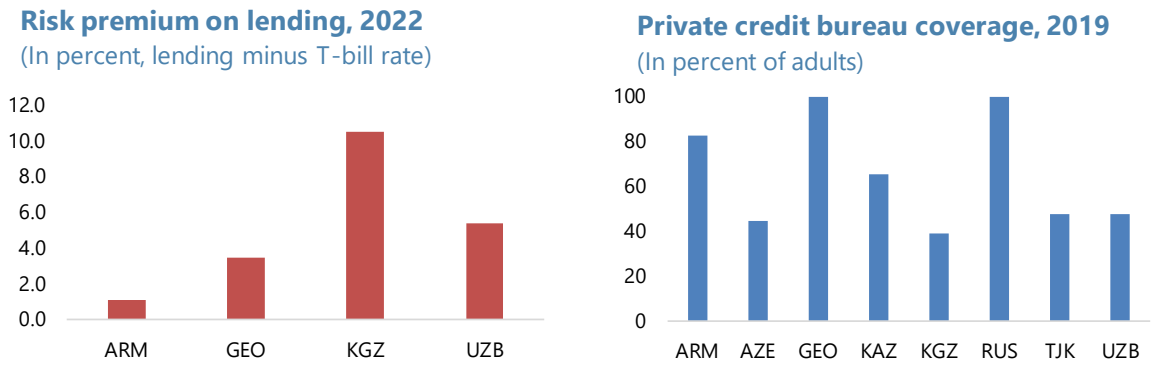
AAGK: Armenia, Azerbaijan, Georgia, Kazakhstan

Sources: IMF, *International Financial Statistics* database, Haver (for Kazakhstan and Tajikistan only), and the Statistical Agency Under the President of the Republic of Uzbekistan.

The latest available data confirm a positive correlation between spreads and the operational expense ratio or the NPL ratios in the CCA region. High operational costs are possibly related to limited digital banking, reliance on more expensive physical branches and cash-handling systems, the non-remuneration of required bank reserves, excessive employment at SOCBs, small sizes of some private banks, high funding costs, and elevated credit risk resulting in high NPLs and provisioning. Additionally, spreads correlate positively with the risk premium on loans (bank lending rate minus government bond/treasury bill rate) and the incomplete availability of credit information. In Uzbekistan, the risk premium declined significantly from 2019 to 2022, reflecting macroeconomic stability and improvements in perceived risk, but remained higher than in Georgia and Armenia. The difference might reflect weaknesses in property and creditor rights, insolvency procedures, and limited credit information in Uzbekistan. More generally, the state's dominance in the banking sector and limited competition related to that, sizable preferential lending, and underdeveloped capital markets and non-bank financial institutions (NBFIs) are likely to have contributed to high spreads. A further analysis of interest rates, especially for MSME lending, would be critical to the design of policies to tackle the underlying issues rather than trying to address the symptoms with subsidies or interest rate caps.







Sources: World Bank, *Financial Sector Indicators*, and *Global Financial Development database*.

D. Role of the State

13. Progress with privatization of SOCBs has fallen behind the intentions of the 2020 Strategy. Consideration should be given to (once again) including Xalq Bank among the banks to be privatized, thereby lessening duplication among policy banks in serving SMEs. BDB could focus its activities on intermediation of wholesale financial services. In expediting the privatization process, recent years' experience suggests that the authorities need to consider measures to strengthen the accuracy of asset quality reporting post asset quality review (AQR); focus pre-privatization institutional strengthening on corporate governance and credit risk management; and enhance efforts to identify strategic investors with value-additional banking experience. SOE restructuring and privatization is essential to reducing reliance on directed credit and improving the operations of policy banks. Likewise, the privatization efforts within the insurance sector should continue.

14. Beyond ownership, the government continues to intervene in the financial sector through directed and preferential credit. Directed credit supports SOEs and priority economic sectors, while preferential credit is provided for social objectives, such as enhancing financial inclusion. Preferential credit is financed by the government and provided at interest rates below market rates.[3] As of end-2024, around 30 percent of total banking sector lending is estimated to be directed or preferential lending, which is about half of its 2018 share.

15. While SOCBs are moving towards operating on a more commercial basis, directed and preferential lending weakens credit risk management, requiring periodic recapitalization. SOCBs are expected to meet certain lending targets defined by the government under government programs. Under pressure to meet the targets, SOCBs may be more lenient with the assessment of credit risk. This results in weaker performance of SOCBs, which in turn necessitates periodic recapitalization using public funds. Between 2017 and 2023, the SOCBs required recapitalization in the range of 0.4 and 2.0 percent of GDP per year, which cumulatively amounted to the equivalent of US$5.8 billion (Table 4). For three policy banks (Agrobank, Microcredit bank, and Xalq bank), the capital injections—measured in terms of their 2017 capital—amounted to between 500 and 700 percent of their capital (Annex Figure 10). Should the policy banks face adverse stress, the

[3] At the time of the FSAP, the preferential lending rate was the CBU policy rate + 4 percent (17.5 percent). Noted market rates ranged from approximately 25 percent (for mortgages) to 30 percent (for the SME sector).

recapitalization needs may go beyond 2.0 of GDP per year, depending on the severity of the stress to the sector. Importantly, banks should retain full responsibility for originating and managing credit risks of their loans. The Uzbekistan Fund for Reconstruction and Development (UFRD), which currently performs functions in lending and capitalizing SOCBs which are duplicative of the MoEF, should cease to provide directed and preferential lending to SOCBs and instead operate at arms-length of the Government while increasing transparency, including through IFRS compliant financial statements.

Table 4. Capital Injections Received by SOCBs from MoEF and UFRD (US$ million)

	2017	2018	2019	2020	2021	2022	2023	H1 2024	Total
NBU	71	-	-	1,143	21	197	96	62	1,590
Agrobank	147	39	235	49	272	-	180	84	1,006
Xalq bank	68	30	228	-	296	-	32	203	857
BDB/QQB	-	-	-	75	-	-	76	192	342
Microcredit bank	55	13	100	-	172	120	20	-	480
Uzpromstroybank/SQB	72	15	290	-	-	-	-	-	377
Asaka bank	271	-	320	-	-	20	-	-	611
Ipoteka bank	63	1.7	186	5	12	-	-	-	267
Aloqabank	30	65	7	-	-	-	-	-	103
Turon bank	37	58	13	-	57	-	-	-	164
Poytaht bank	-	12	-	-	-	-	-	-	12
Total	**813**	**235**	**1,379**	**1,272**	**828**	**337**	**404**	**541**	**5,808**

Source: MoEF and UFRD

16. Assessing the effectiveness of directed and preferential credit programs is constrained by the lack of transparency. The process of allocating directed and preferential credit is not public, with only the predetermined amounts and terms published in government decrees. Importantly, there is no public record of the performance of these programs. More broadly, directed and preferential loan programs seem to keep afloat many SOEs and MSMEs that would be unviable without such support. As a result, the value-addition of the financial system in contributing to effectively allocating scarce economic resources is compromised.

17. There are three types of directed and preferential lending programs, which differ in the extent of their market distortion. First, subsidized lending to priority sectors, which is available to all market participants on the same terms, with participating banks conducting their own credit underwriting. This type of lending is not necessarily market distortive, as banks participate voluntarily and place reliance on their assessment of credit risk. Second, preferential lending programs that are accessible only to a sub-set of institutions with pre-determined interest rates. These programs, while supporting deserving causes, such as MSME finance, youth, family entrepreneurship etc., lead to market distortions and, due to favorable terms offered, may crowd out private banks. Third, lending directed to SOEs and those large enterprises involved in government-related businesses. This type of directed credit allocation is non-transparent, with the pricing determined by the government on a case-by-case basis, which is likely to lead to market distortions. The portions of directed and

preferential lending which are market distortionary should be gradually phased out while commercially viable segments could be supported through instruments that are more market-aligned.

18. Policy banks operate with broad mandates, and do not operate on a level playing field with the private sector. All policy banks operate as first-tier retail banks, implement directed and preferential lending programs, and in parallel conduct market-based commercial business, mostly focused on MSMEs and entrepreneurship (Annex Figure 10). First and foremost, clearly delineating in financial reports the directed and preferential credit from commercial business would need to be transparently established. In segmenting the reporting, it would enable identifying those areas where policy-banks provide additionality, and result in the reconsideration of the scope of their activities. Subsequently, SOCB mandates should be honed to focus on their respective comparative advantages while applying competitive neutrality principles. The delineation of reporting would also allow tracking the outcomes achieved. These steps would permit a transparent and gradual reduction in the reliance of directed and preferential credit which would also need to go hand-in-hand with the privatization of SOEs, as they are primarily financed by SOCBs.

19. Irrespective of the privatization process, it will be important for all policy banks to continue progressing on institutional reforms. Corporate governance strengthening, including aligning the composition of boards with international best practices, and improving credit assessment and risk management practices are crucial. This includes improving the reporting of asset quality. These considerations are important as a revised or new banking sector strategy is being considered beyond 2025.

SYSTEMIC RISK ASSESSMENT

20. The main vulnerabilities relate to bank exposures to credit risk, including indirect foreign currency-induced credit risk, and liquidity risk. Credit risk is compounded by asset quality overstatement. Lending to non-financial corporations (NFCs) is highly dollarized and unhedged firms are vulnerable to exchange rate depreciation; pockets of vulnerability exist from the corporates making persistent losses. While lending to households has moderated, further asset quality deterioration could be expected as loans mature. Liquidity risk related to potential external debt rollover appears manageable, given the significant IFI funding and the long maturity of external debt.

21. The FSAP quantitative analysis focused on banks, which dominate the financial system, revealing vulnerabilities to credit risk. Stress tests were conducted across different categories of banks: SOCBs, domestic private, foreign-owned, and Domestic-Systemically Important Banks (D-SIB; including five SOCBs, one domestic private bank, and one foreign bank). Results show that the main vulnerability relates to credit risk, which is amplified by under-provisioning of NPLs, and that the banks most at risk of breaching the required minimum CAR under stress test scenarios are SOCBs. Liquidity stress test results confirm sufficient liquidity in banks, although high depositor concentration may create challenges in some banks. As the authorities consider stress testing scenarios, considerations should be given to augment the solvency and liquidity stress test by factoring in an analysis of

depositor concentration as well adjusting the data to address regulatory misalignments regarding asset quality and currency induced credits risk for corporate lending.

FINANCIAL SECTOR OVERSIGHT

A. Macroprudential Oversight

22. In recent years, the CBU has significantly strengthened its macroprudential policy framework. A Financial Stability Department was established in 2021, and the Macroprudential Policy Strategy, defining the goals, instruments, and decision-making process of macroprudential policies, was adopted in 2023. The CBU has displayed appropriate willingness and ability to act. Its mandate, however, covers "stability of the banking sector," while overall financial stability is a shared responsibility between the CBU and the government. Safeguarding banking stability is akin to safeguarding financial stability given the dominant role of banks, but the authorities should consider expanding the CBU's mandate to explicitly assign it as the macroprudential authority, to prepare for a more diverse financial landscape as the nonbank sector grows.

23. The planned establishment of Financial Stability Board (FSB) should help coordination and cooperation in the pursuit of financial stability. The FSB will function as an inter-agency body with CBU as its secretariat, tasked with facilitating cooperation on financial stability issues and dealing with possible financial crises. Since the FSB will have a dual mandate, its financial stability and crisis management functions should be kept separate, including its different composition in "normal times" versus "crisis times".

24. The CBU should continue expanding its macroprudential policy toolkit. The CBU should adopt a counter-cyclical capital buffer with a positive-neutral setting during normal times. Additionally, the D-SIBs should be subject to capital surcharges commensurate to each bank's systemic importance. A systemic risk buffer could be considered for residual systemic risks not covered elsewhere, for example currency-induced credit risk. The borrower-based measures should be strengthened and broadened to all credit institutions and all types of household credit. The CBU should continue improving the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) calculation methodology to better account for existing risks, including from external funding.

25. Addressing data gaps would be necessary to further strengthen systemic risk analysis. Enhancing granularity and quality of data on corporate and household balance sheets, direct and preferential lending, asset classification and provisioning, and restructured loans would allow for deeper systemic risk analysis. Reporting to the credit bureau by providers of BNPL schemes should be made compulsory and the number of monitored NFCs should be expanded as feasible.

B. Banking Regulation and Supervision

26. The authorities have made significant progress in strengthening bank regulation and supervision, but the CBU's operational independence needs to be safeguarded. The LCBU enhanced the CBU's independence and set price and banking sector stability as its mandate. However,

the CBU's operational independence is compromised in several ways. For example, the Law on Normative Legal Act (i) requires the CBU to agree with the 'Chamber of Commerce and Industry' regarding the content of its draft banking regulations, and (ii) enables the Ministry of Justice to delay or refuse the registration of the CBU regulations. Also, some official decrees task the CBU with responsibilities that go beyond its legal mandates (e.g. development objectives).

27. The transition to risk-based supervision (RBS) should be supported by robust implementation. The December 2023 Guidelines on Risk-Based Supervision (GRBS) is robust and forward-looking. However, effective risk-based supervision requires consistent sound judgment within and across supervisory teams, and due consideration of the quality of banks' risk management and internal controls. Enhancements should be made to evaluate the banks' risk profile and internal controls during off-site supervision and on-site inspections. For off-site supervision, the role of the CBU curators should be formalized, clearly outlining their roles and responsibilities to avoid reputational risk for the CBU. An assessment of corporate governance should be systematically conducted. The CBU should also consider extending the time limit of on-site inspections beyond 30 days, as it may be insufficient to conduct a thorough review of the bank's credit file.

28. Implementation of consolidated supervision should be accelerated. The CBU has recently identified 19 banking groups. The regulation to establish the specifics regarding consolidated supervision and the procedures for determining the perimeter and methods of consolidation is still absent. Prudential requirements and supervisory reporting should be expanded from an individual bank basis to a consolidated level.

29. Supervisory reporting should be improved. The CBU collects reports from banks on an individual basis rather than on a consolidated basis. Additional ad hoc information is requested in an unstructured format. The data validity checks, and the safety of data transfers need improvement. Supervisory reports from individual banks should also be subject to proportionality, in line with the RBS principles.

30. The cooperation between the CBU and NAPP should be enhanced. There are close economic and business ties between banks and insurance companies. Some SOCBs own insurance companies and there is cross-selling of insurance within some banks. Nevertheless, the CBU and NAPP have not established a formalized framework for cooperation and information exchange. Meetings take place irregularly, and there is a risk of insufficient and ineffective information exchange. This could result in financial vulnerabilities spreading across the financial system.

31. The prevalence of SOCB lending to SOEs requires attention by the CBU. SOCB lending to SOEs is not subject to the qualitative requirements in place for related party transactions. The lending is not always done on arms' length basis, indicating credit risk management is not being implemented adequately. Although the CBU has discretion regarding the qualification of related parties and the application of '*more favorable terms*', it has rarely exerted its 'reasoned judgments' on this topic. SOCB transactions with SOEs should respect typical qualitative requirements of related party transactions, ensuring that they are conducted on an arms' length basis, avoid conflicts of interest, and are approved and monitored by the CBU.

32. Although the CBU has advanced its transition to Basel III, deviations from the Basel framework in the definition of capital should be addressed. The 13 percent required CAR includes a capital conservation buffer of 3 percent. However, the definition of capital is not fully aligned with the Basel framework. For example, subordinated debts are not subject to the writing-off/conversion requirement. Moreover, there are deviations in the methodology for calculating risk-weighted assets. There are no capital surcharges for D-SIBs. Due to the lack of a Pillar II methodology, the capital requirements are not calibrated to banks' risk profiles.

33. The CBU has a set of requirements to monitor banks' liquidity, but these are not calibrated to the individual bank risk profile. The minimum amount of liquid assets is set at 10 percent of total assets. The LCR and the NSFR are both set at a minimum of 100 percent and must be fulfilled in local as well as foreign currencies. However, liquidity requirements are not calibrated to the banks' risk profile and systemic importance.

C. Insurance and Capital Markets Regulation and Supervision

34. NAPP is a relatively new regulator that would benefit from stronger oversight capacity and enforcement power. NAPP was established as an independent agency, accountable to the President, and its budget does not come from the Government. NAPP is well regarded by the entities it supervises. However, insufficient oversight capacity is hampering NAPP's ability to adequately supervise both the insurance market and capital markets. Low staffing levels (22 for each insurance and capital markets) may not fully support the demands for effective oversight of these sectors. In addition, NAPP does not perform on-site supervision, unless an issue is identified through the off-site analysis performed on quarterly reporting. NAPP has weak enforcement power and limited tools that it can use to sanction companies. For example, Resolution of the Cabinet of Ministers 80 only allows for licenses to be suspended for 10 days initially. Beyond the 10 days, a court decision is required for further suspension of up to six months.

35. Limitations in the legal and regulatory framework are constraining the insurance sector and capital markets and making it difficult to ensure the stability of the insurance sector. Insurance company specific regulations should be developed in order to consider the specificities of an insurer and its objective of protecting policyholders above all other stakeholders (e.g., shareholders). In addition, the capital requirement calculation is basic and does not consider the actual risks of the company. Insurance specific regulations on corporate governance, consumer protection and conduct of business, as well as a transition to a risk-based capital framework (with risk-based supervision) would strengthen the insurance sector. It is noted that NAPP is developing a new regulation on risk-based capital. There are serious gaps in regulations for insurance intermediaries as there is no requirement to license insurance agents. Capacity building for NAPP and market participants will be key to making the transition to risk-based capital and risk-based supervision for insurance successful. NAPP has issued new regulations to increase the authorized capital of insurance companies beginning in 2025 and continuing until 2029. It is expected that this may lead to exits from the market or consolidation of existing companies. Pending the impact that these new requirements will have on the market, NAPP should consider whether further consolidation of market participants is needed. Likewise, drafting of the Capital Market Law has been ongoing to establish a legal

framework which is to be followed by implementing regulations. The investment fund industry is close to non-existent, partly due to the absence of a proper regulatory framework.

D. Payments System Oversight

36. The CBU is responsible for payments system oversight, but a formal oversight framework remains to be operationalized. The 2019 Payment Systems Law (Law No. 578 "On Payments and Payment Systems") and the Regulation on the Procedure for Supervision and Supervision of the Activities of Payment System Operators and Payment Organizations (CBU Regulation No. 3434) enabled the CBU to formally license payment service providers and perform payment systems oversight. However, a detailed oversight framework, which includes risk-based system designation criteria and applicable standards, has not been enacted yet. Oversight activities tend to be entity- rather than activity and risk-based. Formal cooperation between the CBU and NAPP regarding securities and crypto-assets oversight is limited, increasing the risk of regulatory arbitrage. Likewise, information exchange between payment systems overseers and banking supervisors within the CBU could be strengthened to ensure risks to the payment system stemming from financial or operational issues experienced by commercial banks are incorporated.

37. The CBU should enact and operationalize a risk-based oversight framework for payment systems, informed by the Principles for Financial Market Infrastructures (PFMI). PFMI self-assessments for critical payment systems, such as the real-time gross settlement system (RTGS) and the Instant Payment System should be expedited. The self-assessment will support the operators and regulators in identifying and mitigating key legal, operational, credit and liquidity risks and may identify further entities—critical participants and critical service providers—that should be subjected to appropriate risk-based levels of oversight.

38. The authorities should establish a regulatory, licensing and oversight regime for other FMIs, such as the CSD and the central counterparty (CCP). Currently, the central counterparty for spot and future foreign exchange transactions, operated by the Currency Exchange (UZCE), functions based on a broad mandate contained in a Presidential Directive. The CCP lacks a formal license and is not covered by the oversight activities of the CBU's Payment System Department. Considering potentially overlapping mandates, a cooperative oversight arrangement may be needed; this should be facilitated by a memorandum of understanding between the CBU, MoEF, and NAPP.

E. Financial Integrity

39. Uzbekistan's AML/CFT regime is generally effective in mitigating the risks identified. According to the 2019 National Risk Assessment (NRA), the primary money laundering (ML) risks in Uzbekistan stem from corruption and bribery, tax and customs offences, illicit drug trafficking, organized crime, and fraud. The NRA also found a high risk of terrorism financing (TF). The 2022 assessment by the EAG concluded that Uzbekistan's AML/CFT regime was generally effective in addressing these risks. The AML/CFT supervision of banks was deemed to be well-established, although NBFI supervision could be improved in a few areas.

40. Efforts to strengthen the AML/CFT regime should continue. These should focus on: (i) strengthening criminal justice efforts to combat ML by identifying complex ML schemes; (ii) establishing a system of administrative liability for legal persons to allow for the imposition of sanctions on legal persons implicated in ML/TF schemes; (iii) continuing to enhance risk-based AML/CFT supervision particularly for the insurance, securities and leasing sectors; (iv) take targeted supervisory measures to ensure financial institutions collect accurate and up-to-date beneficial ownership information; and (v) track and respond to emerging risks related to virtual assets.

FINANCIAL SAFETY NET, CRISIS MANAGEMENT, AND RESOLUTION OF NON-PERFORMING LOANS

A. Financial Safety Net and Crisis Management

41. The authorities are making significant progress in developing a crisis management framework based on the Key Attributes of Effective Resolution Regimes. A new law "On bank resolution and liquidation" (BRLL) was approved by the Senate in April 2025. It establishes the resolution process, including bail-in, transfer tools, bridge bank, and the procedures for bank liquidation to apply to all banks. The law "On Guarantees of Protection of Bank Deposits", enacted in February 2025, removed the blanket deposit guarantee, enhanced the mandate of DGA to a "paybox plus", extended the deposit protection to legal entities, mandated the participation of all banks, and shortened the payout period.

42. The planned establishment of the FSB should enhance contingency planning and crisis preparedness. In the FSB's crisis management role, the goal is to ensure inter-agency coordination on all aspects of resolution and crisis management. Contingency plans and memoranda of understanding should be prioritized in the first stage, with periodic crisis management tests to be introduced in the medium term.

43. The recovery planning framework should be aligned with international standards, moving away from the current ad hoc basis. The authorities should adopt dedicated guidelines on recovery planning and a supervisory framework should be established for their assessment. In the medium term, the CBU should consider making recovery planning mandatory for all banks with appropriate proportionality. Following the enactment of the BRLL, recovery plans should facilitate the transition from supervisory oversight to resolution, thereby enhancing both bank risk management and the CBU's early intervention framework.

44. The CBU should strengthen triggers for early intervention and refine modalities for placing a bank into resolution, including liquidation. Supervisory and early intervention measures should occur before the breach of any regulatory thresholds. The authorities should set up an early warning framework to detect bank stress and trigger a timely supervisory intervention. The authorities should refine the resolution triggers to focus on the lack of viability and systemic importance at the point of failure. Additionally, an escalation mechanism should be developed to inform the transition of oversight from the supervisory measures to early intervention and bank resolution and liquidation.

45. The authorities should prioritize setting up the resolution function following the enactment of the BRLL. The resolution function should be established as an operationally independent unit within the CBU, supported by sufficient staffing and robust governance. A phased approach to resolution planning should be developed, first by adopting the regulations implementing the BRLL, then by planning requirement for D-SIBs, and then for all banks (on a proportionate basis allowing for simplified plans for small institutions). In the long term, the authorities should communicate Loss Absorption Capacity requirements once the capital requirement in line with the Basel III framework has been adopted and resolution plans and resolvability assessments have been communicated to banks.

46. The deposit insurance framework should be fully aligned with the International Association of Deposit Insurers principles. The new legal mandate of DGA should be operationalized to support resolution funding and the backstop mechanism in form of a budget loan from the government. A formal mechanism for backstop funding should be established between the DGA, CBU, and MoEF, with adequate contingency plans developed under the FSB umbrella. The mechanism should provide for prompt allocation of resources to the DGA to support bank resolution and liquidation and to the ex-post Resolution Fund.

47. The ongoing work on setting up an effective ELA framework should continue. Following the adoption of the ELA regulation in December 2024, the CBU is developing internal procedures for operationalization. These efforts should be complemented by addressing remaining gaps, including (i) extending the ELA time limit from three to six months; (ii) setting a fixed interest rate on ELA at 2 percentage points above the overnight repo facility rate to mitigate moral hazard; (iii) incorporating the possibility of issuing government guarantees for ELA; and (iv) developing a framework for ELA collateral. The authorities should also amend the LCBU to align ELA provision with international good practices.

B. Resolution of Non-performing Loans

48. Ensuring accurate reporting of asset quality should be prioritized by the CBU. As mentioned above (see paragraphs (11 and 12), concerns remain surrounding asset quality despite CBUs increased focus since 2021. Although partly due to a conservative write-off policy, provisions are low at 30.2 percent of NPLs as of August 2024, limiting banks' ability to absorb losses that could arise if asset quality was scrutinized. This requires strong supervisory vigilance by the CBU concerning the quality of assets, including ensuring accurate reporting.

49. Current vulnerabilities could trigger further deteriorations in asset quality. The regulation on risk management (RRM) strengthened the prudential framework for credit risk, but not all banks have modernized internal systems to comply with the new standards, making them vulnerable to credit risk. Also, directed and preferential lending persists in SOCBs, featuring poorer origination standards and higher rates of default. Households' indebtedness is increasing, raising

concerns on timely repayment of loans, while corporate vulnerabilities are also on the rise, with decreasing interest coverage ratios of the largest firms (see Annex Figure 9).

50. The legal framework does not foster efficient NPL resolution. Banks mostly rely on collateral enforcement to address NPLs, and other resolution options, including NPL sales and in-court restructurings, are curtailed by an unsupportive legal framework. The insolvency system remains heavily weighted in favor of liquidation and both creditors and debtors do not regard the system as an effective mechanism for NPL resolution. NPL sales are technically possible, but the lack of clarity surrounding the transfer regime can be problematic when developing a NPL secondary market. In contrast, the debt enforcement system relies on efficient judicial foreclosures that allow banks to obtain high recoveries in short periods.

51. To optimize NPL resolution, adequate sequencing will be essential. As a first step, the authorities should focus on compelling banks to accurately report asset quality, which will require improving the NPL definition in the regulation on asset quality and provisioning (RAQP) and scrutinizing banks' portfolios through on-site inspections, stress testing and AQRs. Special attention should be paid to loan segments where under-reporting practices are more pervasive, including preferential and directed lending provided by SOCBs. Once the true size of the NPL stock has been estimated, together with some projections over new NPL flows, the authorities should examine banks' provisions and capital buffers, ensuring banks have sufficient capacity to absorb new losses. Considering current provisioning levels, it is likely that significant additional provisions will be required. Volumes, types and distribution of NPLs across banks will determine the most appropriate resolution route, which reinforces the importance of improving the enabling environment for all avenues (restructuring, workouts, enforcement, sales). If NPLs are addressed early when only a few banks are affected by high NPL levels, a bank-by-bank approach using workouts, collateral enforcement and write-offs can be successful and should therefore be preferred. Should the deterioration in asset quality be more abrupt and NPLs become systemic, more centralized solutions could be considered as a last resort.

52. Improving NPL management and resolution would require strengthening key areas. The actions could be grouped into the five pillars mentioned below, which are mutually reinforcing and will require a continued focus by the authorities.

- *Ensuring accurate asset classification:* As noted above, concerns exist surrounding asset quality, and strengthening the prudential framework (RAQP) should be given priority. In parallel, the transition to IFRS-9 should continue with a view to introducing a forward-looking approach to credit risk management. Restructured and deferred loans should be scrutinized and reported conservatively based on objective circumstances and the risk profile of the borrower.

- *Implementing NPL management rules*: The CBU should ensure that banks make progress towards meeting the requirements recently introduced by RRM, such as developing strategies for the resolution of troubled assets by banks with an NPL ratio above 5 percent and fully operationalizing workout units. The CBU should also continue to monitor High NPL Banks closely, ensuring that the objectives adopted in the NPL reduction plans are complied with.

- *Updating the legal framework*: SAMA should strengthen the implementation of the new Insolvency Law and provide adequate resources to courts and administrators alike. Key changes could be needed in the Insolvency Law to promote further restructurings and avoid the strong liquidation focus.

- *Enhancing out-of-court restructuring*: The authorities should focus their efforts on creating a rescue culture that relies on viability and recognizes the true prospects of distressed firms, departing from the current approach based on loan deferrals. True corporate restructurings of large corporate loans could be encouraged through the adoption of guidelines that encourage multi-creditor cooperation.

- *Enhancing the market for distressed assets:* The development of a distressed asset market requires a holistic, well sequenced, and coordinated approach. Some recommendations are essential for the market to kickstart, including the introduction of a new transfer regime. In parallel, efforts should focus on the regulation of servicers and the debt collection activity.

FINANCIAL SECTOR DEVELOPMENT

A. Access to Finance

53. MSME access to finance is a priority for the government. MSMEs account for 90 percent of businesses, 75 percent of employment and contribute to approximately 55 percent of GDP. Several national strategies set goals in which MSMEs are a critical contributing factor, such as the 2030 Strategy's goals of increasing the private sector's share of the economy to 85 percent and creating 250,000 jobs annually.[4] A national MSME Strategy is intended to drive MSME development going forward. Prioritization of the 85 planned actions and an institutionalized coordination mechanism co-led by MoEF and CBU would be important.

54. MSME lending has grown rapidly but a substantial financing gap remains, and the lack of consistent MSME data is a problem. According to CBU statistics, MSME lending stood at around US$6.2 billion at end-2023, of which US$21 million was from MFOs.[5] According to the IFC SME Finance Forum report published March 2025, which uses a slightly broader definition of MSMEs (of <250 employees), demand from MSMEs is around $13 billion, leaving a substantial financing gap of around US$6-7 billion. Estimates regarding the share of MSME lending that benefitted from preferential government programs range from 10-30 percent. Policymaking is hampered by there being no single definition of MSMEs, and minimal public data on both MSMEs and the expenditures and impact of government MSME support programs. A critical first step to evidence-based policy making would be

[4] Uzbekistan 2030 Strategy (2023 UP-158): Increase the private sector's share of GDP from 55 percent to 85 percent. Create 250,000 formal jobs annually. New Development Strategy 2022-2026 (UP-60): Increase the share of the private sector in bank assets to 60 percent (from 30 percent). Banking Sector Reform Strategy 2020-2025 (UP-5992): Reduce state share of financial sector assets from 85 to 40 percent to create a competitive banking system that supports MSME financing. National MSME Strategy (expected April 2025).

[5] CBU: MSME lending by MFOs was US$43 million (UZS 508 billion) during 2023, increasing to US$76 million (UZS 963 billion) during 2024. The outstanding loan amount for MSMEs by MFOs was US$8 million (UZS 105billion) as of January 1, 2024, which increased to US$21 million (UZS 269 billion) as of January 1, 2025.

to standardize the definition of MSMEs and publish data on government-supported MSME programs. The MoEF is leading a revision of the Entrepreneurship Code which will define MSMEs; it will take a concerted effort to embed this across government entities and the private sector.

55. Further growth of market-based MSME finance is hindered by several challenges. While the enabling environment is broadly conducive, especially around credit information systems, and digitalization is becoming more widespread, high lending rates, market distortions, and a shallow non-bank credit institution (NBCI) sector are all hindrances to further growth. Even regulated NBCIs charge high interest rates, in the order of 50-100 percent. These high lending rates (see also Box 1) reflect high costs of funds (at around 25 to 30 percent), substantial credit risk, high operational costs, limited economies of scale, and weak competition. Lowering these rates will require concerted efforts to (i) lower funding costs, (ii) reduce credit risk, (iii) ensure all NBCIs report exposures to the credit registry and bureaus to reduce information asymmetries, (iv) continue with digitalization and encourage economies of scale, and (v) support competition by extending the regulatory perimeter to those NBCIs currently not overseen by the CBU while strengthening financial literacy and consumer protection to ensure borrowers understand the risks they are taking. A more detailed analysis of the reasons behind high deposit and lending rates would be beneficial, subject to available data.

56. Oversight of NBCIs has been strengthened in recent years, but remaining gaps should be closed as these institutions continue to grow rapidly. MFOs, which are supervised by the CBU, grew 7more than times in the four years to end-2024.[6] While NPLs stand at 2.9 percent for the sector[7], they range up to 55 percent, raising concerns about credit risk management. The CBU should strengthen on-site supervision of MFOs, with a focus on proper asset classification, informed by off-site analysis. The CBU is encouraged to expand its supervisory coverage to all leasing, factoring and BNPL providers—some of which are currently under CBU oversight while others operate outside of the regulatory perimeter—to avoid opportunities for regulatory arbitrage, ensure credit information is provided to the registry and bureaus by all NBCIs, and close gaps in consumer protection. The CBU could also more pro-actively de-license inactive license holders (for BNPL, MFO etc.) to help focus limited supervisory resources, and consider separating BNPL from the MFO category, at least in how they are monitored, given their distinct business models, and consumer protection concerns. Market conduct oversight, when developed, should be housed in the CBU.

57. The new category of MFBs offers opportunities for NBCIs to grow and compete with commercial banks, but strong CBU oversight will be needed to manage risks. MFBs can take retail deposits up to the deposit insurance limit and are able to lend up to UZS 5 million to any business entity. They have lower minimum capital requirements than commercial banks but higher than MFOs.[8] While this new category can be an opportunity for strong MFOs to grow and compete with commercial banks, especially as they will be able to access retail deposits which could lower their cost of funds, care should be taken that these deposit-taking institutions are properly licensed and

[6] CBU: Assets of MFOs were US$82 million (UZS 864 billion) as of January 1, 2021, growing 7.4 times to US$609million (UZS 7.9 trillion) as of January 1, 2025.
[7] As of February 1, 2025
[8] The initial capital requirement for MFBs is UZS 50 billion, compared to UZS 2 billion required of MFOs and UZS 500 billion required of banks as of January 1, 2025.

supervised so that they do not create undue risks. Specifically, the CBU should ensure that MFB's business models align with the objectives of microfinance, that they have adequate credit risk management capacity, and that they do not become a backdoor for weak commercial banks that fail to meet the minimum capital requirements for commercial banks.

58. Government financing programs aimed at MSMEs should be evaluated and designed to ensure additionality. Several of the current government programs are distorting market dynamics through subsidies, interest rate caps, and prescriptive targets. Market-based MSME instruments, such as partial credit guarantees (PCGs) and credit-lines, that allow lenders to set interest rates and are available to all financial institutions that meet the eligibility criteria, have been shown to be more effective at scaling access to finance sustainably with less market distortions. PCGs specifically can mitigate credit risk aversion of financial institutions, encouraging them to offer market-based credit to MSMEs and other underserved segments. Conversely, distortions to pricing signals, such as interest rate caps, should be avoided, as they are unsustainable and crowd out the private sector. Lastly, programs which serve a social rather than a commercial purpose are best delivered in the form of targeted social grants, administered outside of the financial sector.

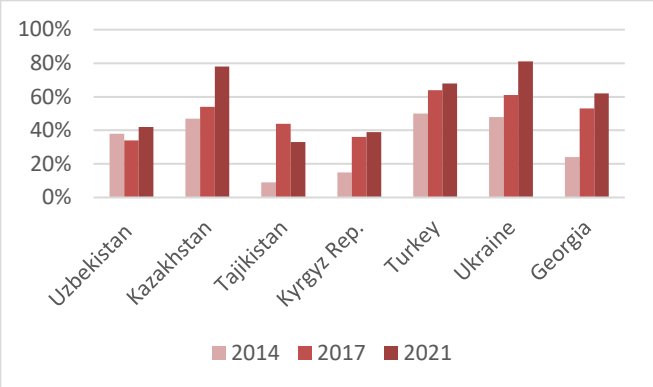
59. The EDC's role should be narrowed to that of a wholesale institution under CBU oversight. It currently offers a range of products to support entrepreneurship, including interest rate subsidies, guarantees, direct financing for leasing, equity support, and wholesale lending to financial institutions. Its product scope could be narrowed by phasing out first-tier lending and focusing on wholesale products by primarily offering credit guarantees to CBU-supervised financial institutions. The guarantees should be aligned with international best practices, such as the World Bank Principles for Credit Guarantee Schemes. To address some of the current gaps, EDC should move towards guarantees that are unknown to the borrower and portfolio guarantees (instead of current loan by loan) with risk-based pricing. Efforts should also be made to strengthen EDC's corporate governance and transparency through a majority of independent board members and publishing audited IFRS financial statements. As already envisioned, regulatory and supervisory oversight should be undertaken by the CBU.

B. Payments System Development

60. While the digital payments ecosystem in Uzbekistan attracts new providers and use cases, most of the population still relies on cash. According to the 2021 Global Findex, less than 40 percent of adults in the country made at least one digital payment throughout the year (Figure 4). This is largely driven by low account ownership rates (44 percent) and a limited access points network (such as point-of-sale terminals accepting digital payments) outside Tashkent. The persistent dominance of cash is demonstrated by commercial banks still investing in the expansion of their ATM and e-kiosk networks; between 2020 and 2024, the number of ATMs and e-kiosks grew by 131 percent.

61. Basic infrastructure supporting digital payments has been established, but gaps remain, and costs are relatively high. An electronic customer due diligence (CDD) system, provided by the government and relying on facial identification, allows remote onboarding of new bank customers. Three main payment systems operated by the CBU—the Interbank Payment System, MUNIS, and the Instant Payment System (formerly known as ANOR)—enable interbank transfers, final settlement of net positions of retail payment systems, and the processing of government payments or business-to-business (B2B) transactions. Other use cases, such as person-to-person (P2P) transfers, are handled by HUMO and UZCARD card networks, where transaction fees to the end user may reach up to 1 percent of the transferred amount. This is relatively high compared to free-of-charge transfers in systems such as Brazil's Pix or Türkiye's FAST. Large-volume recurring payment streams—G2P and B2P payments such as salaries, pensions or social safety net benefits—lack supporting interoperable infrastructure.

Figure 4: Percentage of adults who made at least one digital payment in the past year



Source: WB Global Findex, 2021

62. The fragmented architecture of payment systems in the country should be streamlined and driven by clear use cases. The Interbank Payment System should be modernized to support direct settlement of clearing files from the netting systems, while the Instant Payment System and/or MUNIS should be expanded to support P2P, G2P and B2P functionalities. In this way, recipients of salaries, pensions or social safety net payments will no longer be required to open accounts with the same bank that services the payer (most often, the employer), which should facilitate greater market competition for customers and their deposits.

63. Merchant discount rate caps should be replaced with more targeted interventions. While limiting the merchant fees to 0.2 percent (for domestic card schemes) and 1 percent (for international card schemes) may have induced some merchants to accept digital payments, it reduced incentives to invest in the expansion of digital point-of-sale networks by commercial banks and fintech companies. An acceptance development fund, with targeted subsidies for small businesses or merchants operating in remote areas, could boost digital payments usage with less market distortion.

C. Insurance Market Development

64. The non-life insurance sector has grown significantly but starting from a low base. The sector has more than doubled in terms of assets and written premiums between end-2021 and end-2023. Despite this, non-life insurance penetration remains low (0.7 percent of GDP), although this is among the highest in Central Asia Commonwealth of Independent States (CIS) countries. The life insurance sector is underdeveloped with a penetration rate of less than 0.1 percent of GDP. While growing until 2022, the life insurance market collapsed in 2023 due to removal of tax incentives.

65. Confidence in the sector is limited by weak financial literacy, and a low non-life claims ratio. However, NAPP is pursuing initiatives to boost consumer confidence, including by increasing requirements for authorized capital and strengthening prudential requirements. This has resulted in nine insurers exiting the market in recent years. Further increases to authorized capital later in 2025 and in 2027 may result in more insurers exiting the market or consolidation of market participants. Non-life companies have a very low claims ratio (around 25 percent) indicating that many claims may not be paid, which can undermine consumer confidence. NAPP should review complaints received from policyholders and conduct on-site inspections to better understand the low claims ratio and whether any corrective action is needed. In addition, NAPP should prioritize financial literacy programs to educate consumers about the value of insurance, which would help develop the market.

66. Changes to compulsory MTPL insurance and development of Takaful insurance could spur market development. Currently, the government sets tariffs and coverage limits for MTPL. Set in 2019, the current tariffs and limits are insufficient, making MTPL a loss-making product for insurers. NAPP plans to update the tariffs and limits; however, consideration should be given to liberalizing this market so that insurers set their own rates based on risk. NAPP could start by setting a corridor (minimum and maximum tariff) in which insurers must operate. This would allow insurers to apply a coefficient to the minimum tariff that considers the risk profile of the policyholder, and the benefit level. Regarding Takaful insurance, few insurers offer these products because Islamic finance is not currently regulated in Uzbekistan and Takaful funds cannot be invested in traditional investment vehicles. NAPP should continue developing the necessary regulations to support Takaful insurance.

D. Capital Markets Development

67. The preconditions for capital market development have not been fully met. The macroeconomic conditions present a mixed picture: the fiscal deficit has been declining, and public debt is moderate, but inflation remains relatively high. The legal and institutional environment is conducive, and the FMI is supported by the recent establishment of a single CSD. However, the sovereign yield curve needs to be strengthened to become a reliable pricing reference. High deposit rates combined with deposit guarantee make bank deposits more attractive than capital market instruments (Annex Figure 11). The demand side is severely constrained by the nascent institutional investor base. The key constraint for corporate securities market development is the lack of supply, negatively affected by the dominant role of the state in the economy. Sustained capital market development is extremely challenging in the absence of these preconditions.

68. The development of an institutional investor base is important to create demand for capital market instruments. The largest institutional investor is the insurance industry, with assets accounting for 0.8 percent of GDP at end-2024, followed by the Accumulated Pension Fund (APF) managed by Xalq bank, with assets under management of 0.5 percent of GDP. Growth of the institutional investor base has encountered challenges due to declining life insurance premium. The APF follows a conservative investment policy largely because it is required to guarantee an investment return at the inflation rate. If investment returns are below the inflation rate, it may require Xalq Bank to draw upon a reserve fund and/or Xalq Bank's capital to ensure APF achieves returns at the inflation rate. This limits the risk-taking appetite of the Fund. Extension of the current requirement of having a

one-year guarantee period to cover inflation rate returns would allow the fund manager to adopt a longer-term investment horizon and less conservative investment policies.[9]

69. Interbank liquidity is adequate, but there are limitations in the pricing of short-term funds. The redistribution of liquidity in the interbank market is functioning well and increasingly relies on secured repo transactions. To further support repo market development, the authorities should promote the introduction of a Master Repurchase Agreement including appropriate close-out netting arrangements. While interbank rates remain within the corridor set around the policy rate, deposit and lending rates offered by commercial banks are disconnected from the monetary policy rates. Despite the declining monetary policy rate since June 2022 (from 17 to 13.5 percent as of March 2025), deposit and loan rates remained above 20 percent, reflecting remaining potential in the interest rate formation at the short end of the yield curve. Furthermore, CBU and MoEF should improve their coordination as the current framework of placing deposits by MoEF may weaken the effectiveness of the monetary policy operations.

70. Government bond market development is heading in the right direction, but the reliability and robustness of the yield curve can further improve. As the high share of foreign currency-denominated debt makes Uzbekistan vulnerable to currency fluctuations, developing the local currency government bond markets should therefore be a priority. A robust sovereign yield curve is a cornerstone for capital market development. The MoEF has improved its benchmark issuance program to enhance the reliability of the yield curve, however, except for the 1- to 3-year segment, it is not supported by sizeable issuances and a deep secondary market. The highly bank-centric investor base is not supportive of a fast yield curve extension; consequently, MoEF should take a gradual, medium- to long-term approach to expand the issuance in the longer-term segment. Implementation of liability management operations, such as bond buybacks and switches, could help strengthen the benchmark issuance on existing tenors by facilitating larger individual bond sizes, which is supportive of secondary market liquidity.

71. The corporate bond market is characterized by irregular, and mostly small issuances. It is dominated by banks and microfinance institutions, and issuance through private placement. Private companies do not use this avenue to fund their projects as it ends up being more complex and expensive than a commercial bank loan. To spur this market segment, the authorities could consider assessing the feasibility of alternative options, such as a credit enhancement facility. Such facilities either invest in or guarantee corporate bond issuances, to reduce the cost of funding. In Asia, such examples can be found in Malaysia through the Central Bank led Danajamin Nasional Berhad. A similar initiative is the Credit Guarantee & Investment Facility (CGIF) for ASEAN Markets[10] led by ASEAN governments.

[9] An OECD Working Paper reveals that the lifetime guarantee is affordable and successfully implemented in a number of countries. OECD Working Papers on Finance, Insurance and Private Pensions No. 11. The Role of Guarantees in Defined Contribution Pensions. OECD 2011. Web resource: https://www.oecd.org/content/dam/oecd/en/publications/reports/2011/09/the-role-of-guarantees-in-defined-contribution-pensions_g17a2019/5kg52k5b0v9s-en.pdf

[10] https://www.danajamin.com/ and https://www.cgif-abmi.org/

72. The equity market appears to be the largest and most active market segment, but the low free float significantly restricts its liquidity. The free float-adjusted market capitalization remains a fraction of the actual one, accounting for merely 0.29 percent of GDP at end-2024. The sale of SOE shares to foreign investors has not been combined with offerings to domestic individual investors, which did not affect the free float ratio on stock exchange. Going forward, the authorities should develop a transparent and robust supply side of potential issuers by building a steady and diversified pipeline of well-prepared IPOs and SPOs of SOEs. Further options should also be explored to increase the free float of listed companies, such as SPOs, prioritizing individual investors, capital increases, and adding share transfers of listed SOEs to the National Investment Fund of Uzbekistan.

E. Greening the Financial Sector

73. Uzbekistan is exposed to significant climate risks and the integration of these risks into supervisory and banking sector practices remains in early stages. Uzbekistan is an energy and resource intensive country, facing water scarcity, droughts, extreme heat, rainfall volatility, dust storms, and other climate consequences. Without action on climate adaptation, Uzbekistan's economy is predicted to be 10 percent smaller by 2050, resulting in significantly lower employment and household incomes.[11] As of 2022, up to 42 percent of bank lending was financing emissions-intensive activities, mainly through exposure to fossil fuels, utilities, and other energy-intensive sectors – the energy sector is responsible for about 75 percent of Uzbekistan's GHG emissions. In March 2025, the CBU adopted a strategy on the management and supervision of climate-related financial risks in the banking sector for 2025-27. It foresees regulatory and supervisory actions, including the setting of standards that banks will be required to follow when managing climate-related risks. Eight banks have developed ESG guidelines. Further, the CBU's FSRs include a Climate Change Dashboard to monitor climate indicators and their potential impact on the financial sector. Going forward, as recommended by the BCP assessment, the CBU should integrate climate-related financial risks in the risk-based supervisory approach through (i) issuing guidelines for the effective management of climate related financial risk by banks, and (ii) conducting, or requiring banks to conduct, a climate risk sensitivity stress tests and (iii) integrate supervisory reporting with information that allows for the assessment of the materiality of climate-related financial risks.

74. The authorities recognize the critical role of the financial sector in supporting the transition to a low-carbon and climate-resilient economy. With many competing public spending needs, mobilization of private capital will be critical for financing the green transition. The authorities introduced a national green taxonomy in 2023 to attract investments into green activities and the development of a green bond framework is underway. Various state-financed programs support investments in renewable energy, but there is no holistic approach.

75. To further stimulate green finance, the authorities should create an enabling green finance environment and offer market-based incentives and products through its DFIs. The introduction of the national green taxonomy was a landmark reform but the scarcity of climate-related data in Uzbekistan will need to be addressed to improve the climate information architecture and to

[11] World Bank: Uzbekistan Country Climate and Development Report. November 2023.

allow for climate stress testing. As the transition to IFRS continues, the authorities could consider adopting sustainability reporting requirements appropriate for the context in Uzbekistan, informed by International Sustainability Standards Board (ISSB) guidance and aligned with international standard setters (including BCBS and IOSCO). Caution should be exercised when using regulatory changes—such as the one applied in 2023 to incentivize banks' investments in start-ups engaged in renewable energy—as these can result in side effects and new risks. DFIs, especially EDC and UzMRC, could play a larger role in financing Uzbekistan's green transition by offering market-based incentives and products in support of green investments while crowding in private capital. Beyond specific product offerings, these DFIs could also integrate climate considerations into their own strategies, risk management and disclosures, while strengthening their overall corporate governance.

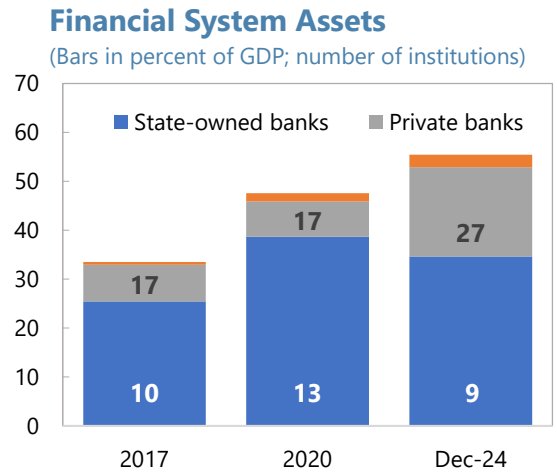
76. Deepening the insurance markets and developing a national disaster risk financing strategy would help better manage disaster- and climate-related risks. Penetration of disaster insurance is low, with fewer than 9 percent of residential dwellings insured against natural perils, fire, lighting, explosion, and aircraft damage risks. As the severity and frequency of climate-related disasters is expected to increase, the authorities are working to develop a disaster risk finance strategy, which will define government policy priorities and set out a cost-effective risk layering approach. Risk layering includes developing local private insurance markets or accessing global capital/ reinsurance markets to increase private capital participation.

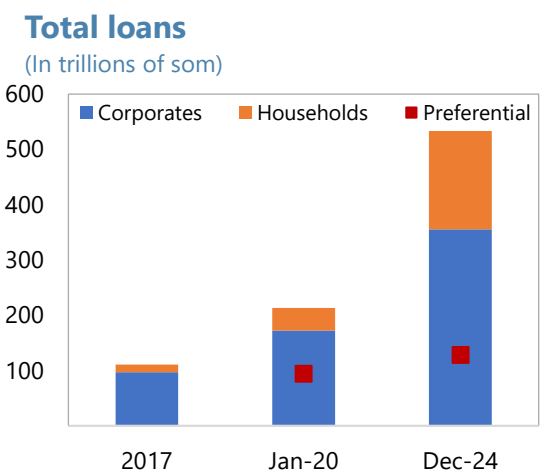
AUTHORITIES' VIEWS

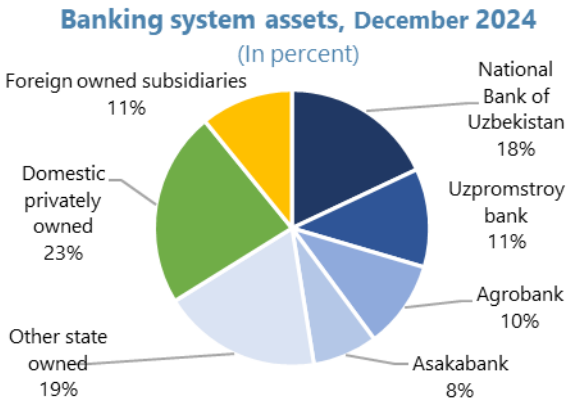
77. The authorities welcomed the FSAP findings and broadly agreed with its recommendations. Some of the weaknesses identified by the FSAP assessment were already recognized by the CBU and have been part of the reform pipeline initiated in 2019, under which prudential requirements were aligned with Basel III, corporate-governance and risk-management standards were reinforced, risk-based supervision was implemented, supervisory reporting was modernized and a macroprudential framework was developed. The recently adopted Deposit Guarantee Law and the forthcoming Bank Resolution and Liquidation Law establish a robust financial safety-net framework, which the CBU is now in the process of implementing. The CBU remains committed to completing the full implementation of Pillars 2 and 3 requirements, establishing consolidated supervision, refining the NPL resolution framework, introducing a countercyclical capital buffer, integrating climate risk and conducting a PFMI self-assessment of its RTGS. NAPP is committed to strengthening insurance and capital markets oversight by enhancing legal and regulatory frameworks, building capacity and bolstering market confidence. Furthermore, the role of the Government in the provision of financial services will be further recalibrated and reduced, with greater emphasis placed on market-enabling initiatives. FSAP recommendations will be integrated into the broader reform strategy, and follow-up technical assistance is welcomed.

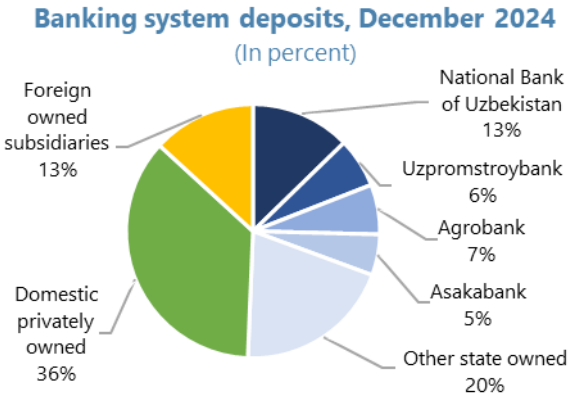
ANNEX: SELECTED FIGURES AND TABLES

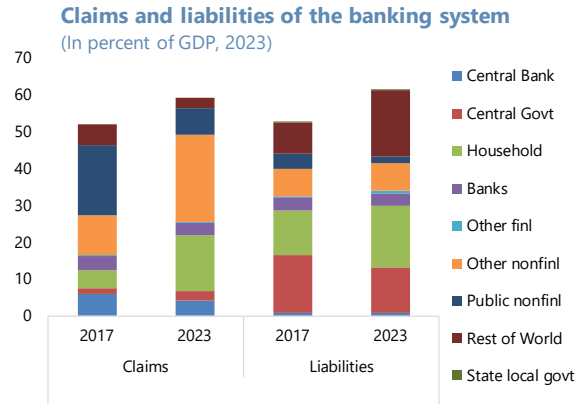
Annex Figure 1. Uzbekistan: Financial Sector Landscape

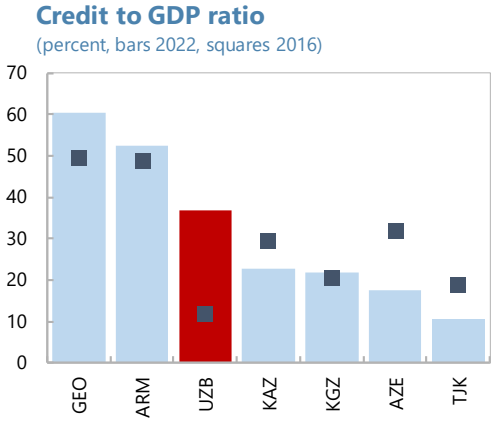






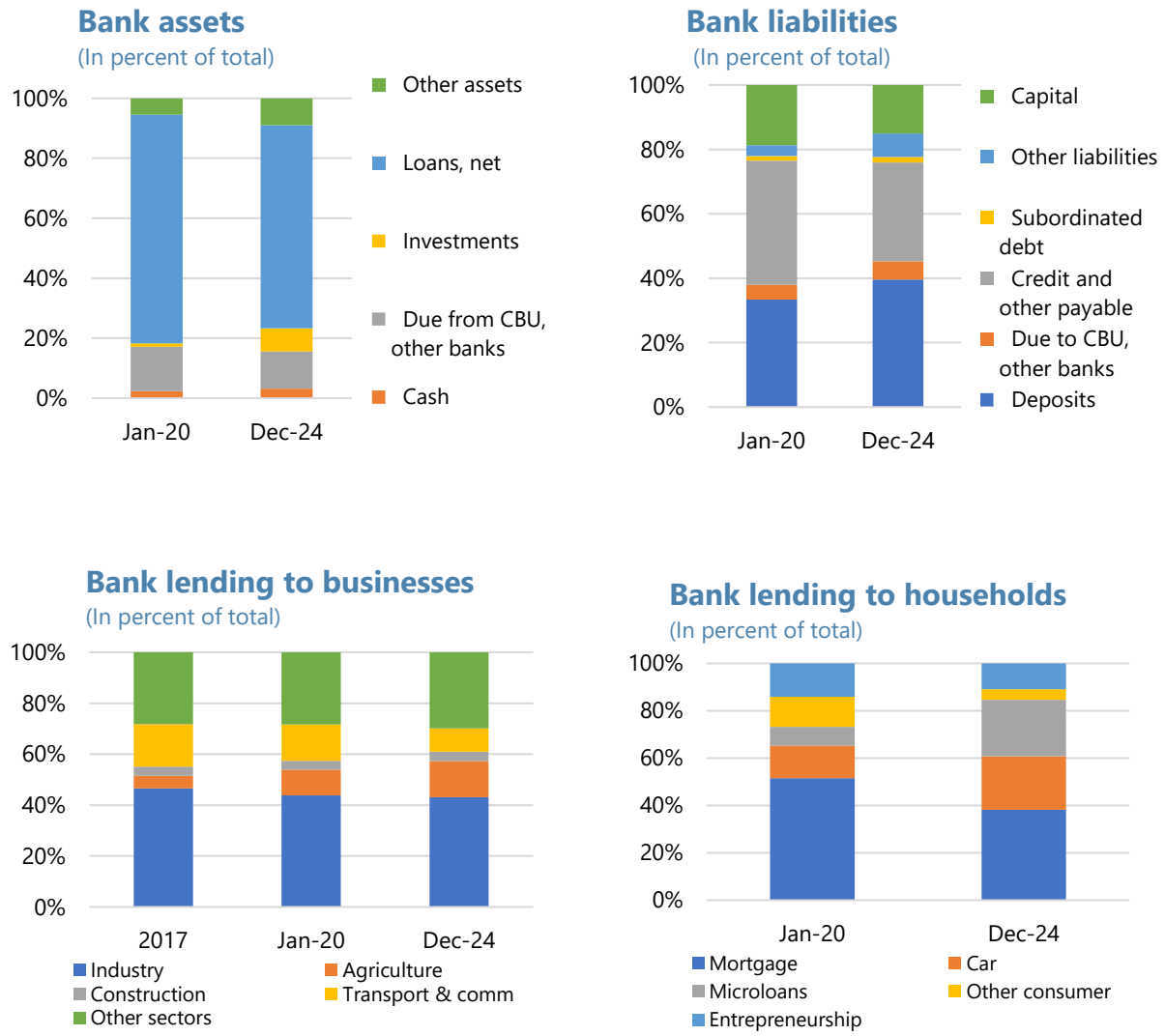






Sources: CBU, IMF staff estimates.

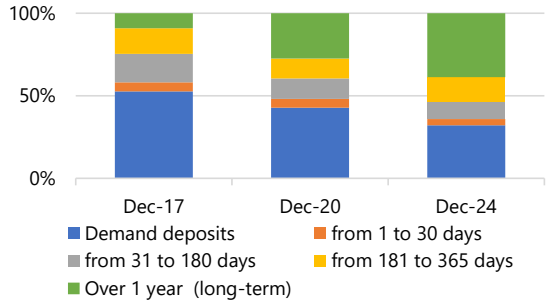
Annex Figure 2. Uzbekistan: Banking Sector Asset Structure



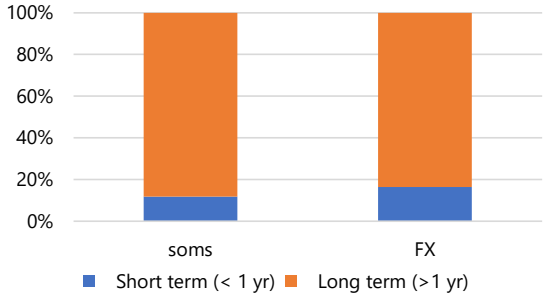
Sources: CBU, IMF staff estimates.

Annex Figure 3. Uzbekistan: Bank Balance Sheet by Maturity, Currency, and Counterparty

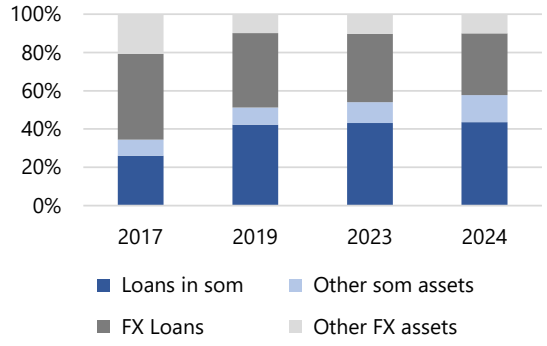
Maturity structure of deposits
(In percent of total)



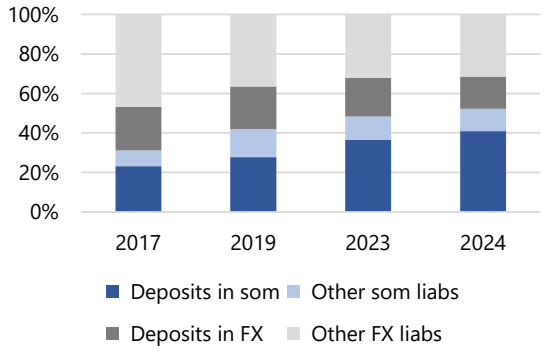
Maturity structure of loans
(In percent of respective currency loan totals)



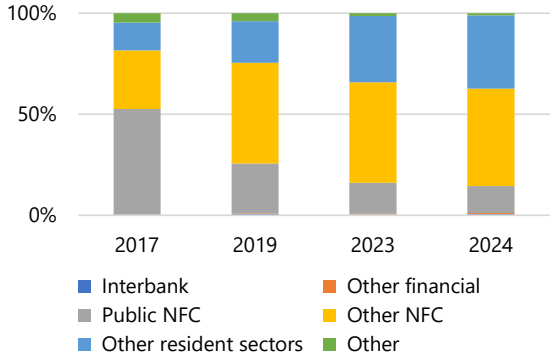
Assets by currency
(In percent of total)



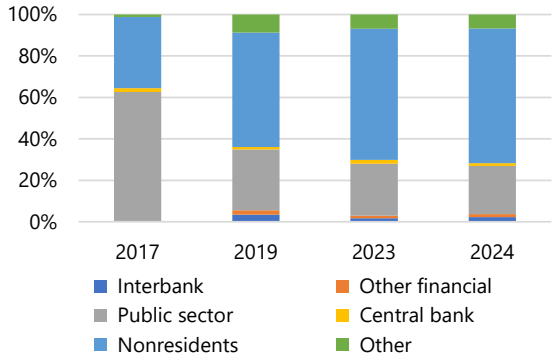
Liabilities by currency
(In percent of total)



Assets by counterparty
(In percent of total)

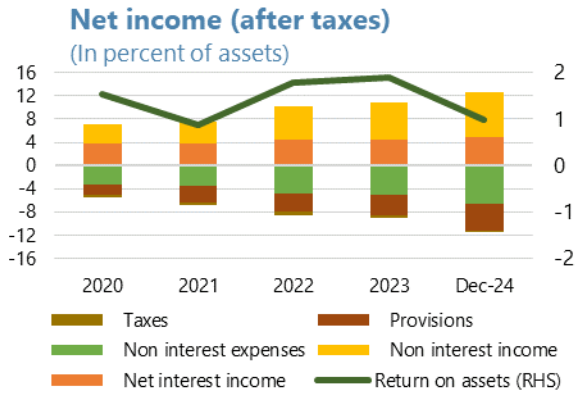


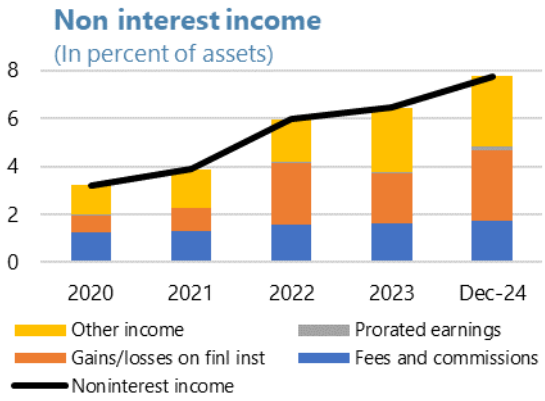
Borrowing by counterparty
(In percent of total borrowing; excludes deposits)

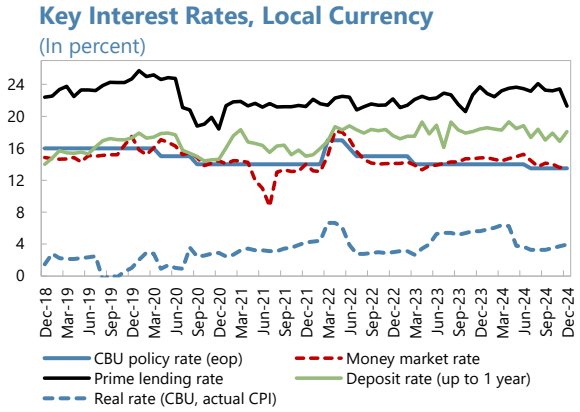


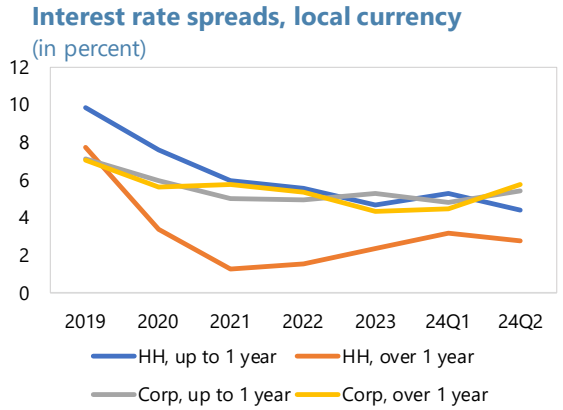
Sources: CBU, IMF, IMF staff estimates.

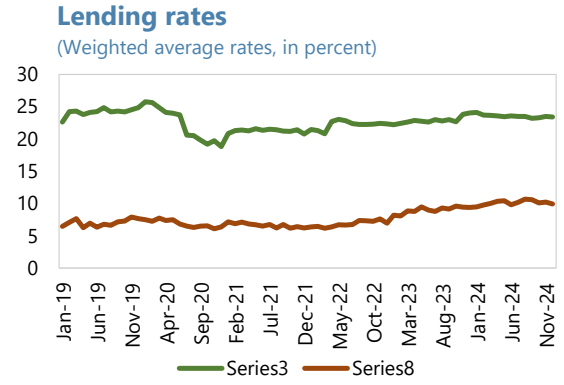
Annex Figure 4. Uzbekistan: Bank Profitability and Interest Rate Spreads

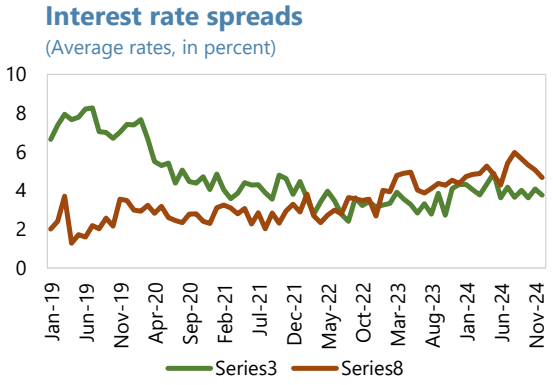










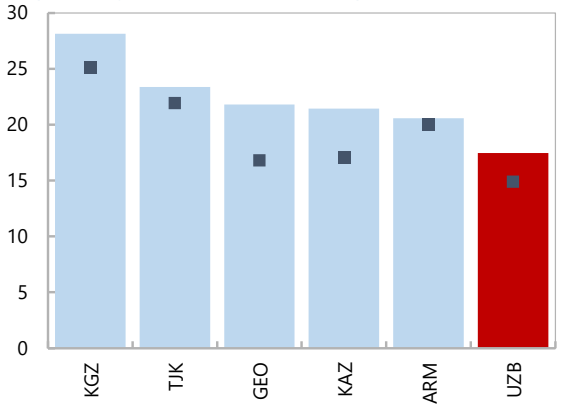


Sources: CBU and IMF staff estimates.

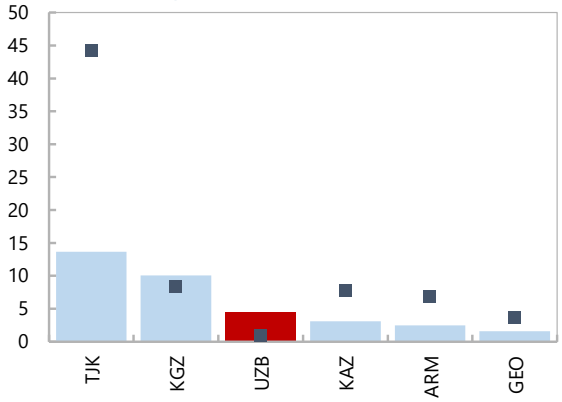
Annex Figure 5. Selected Banking Soundness Indicators in the Region

(percent; Latest available in bars, 2017Q4 in squares)

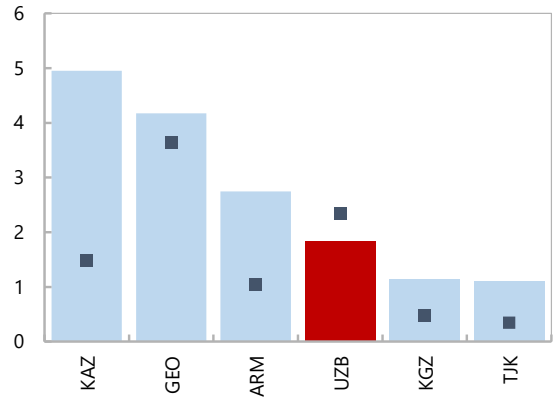
Regulatory Capital to Risk-weighted Assets



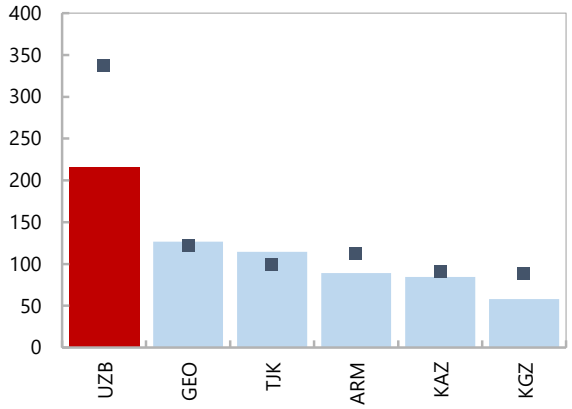
Nonperforming Loans to Total Gross Loans



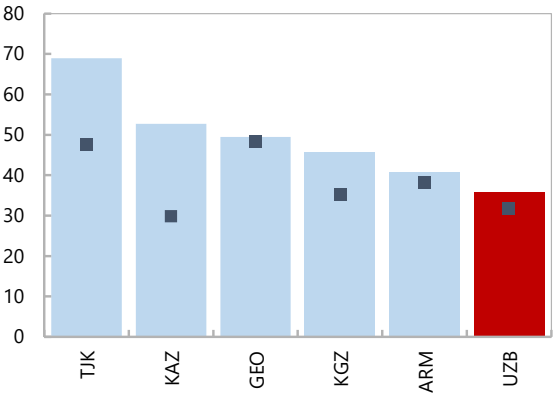
Return on Assets (ROA)



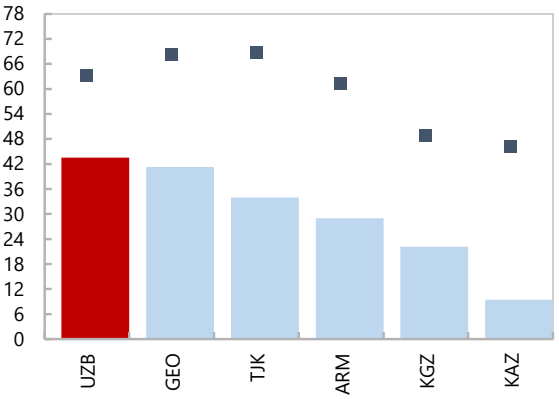
Loan to Deposits*



Household Loans/Loans to Nonfinl Private Sector



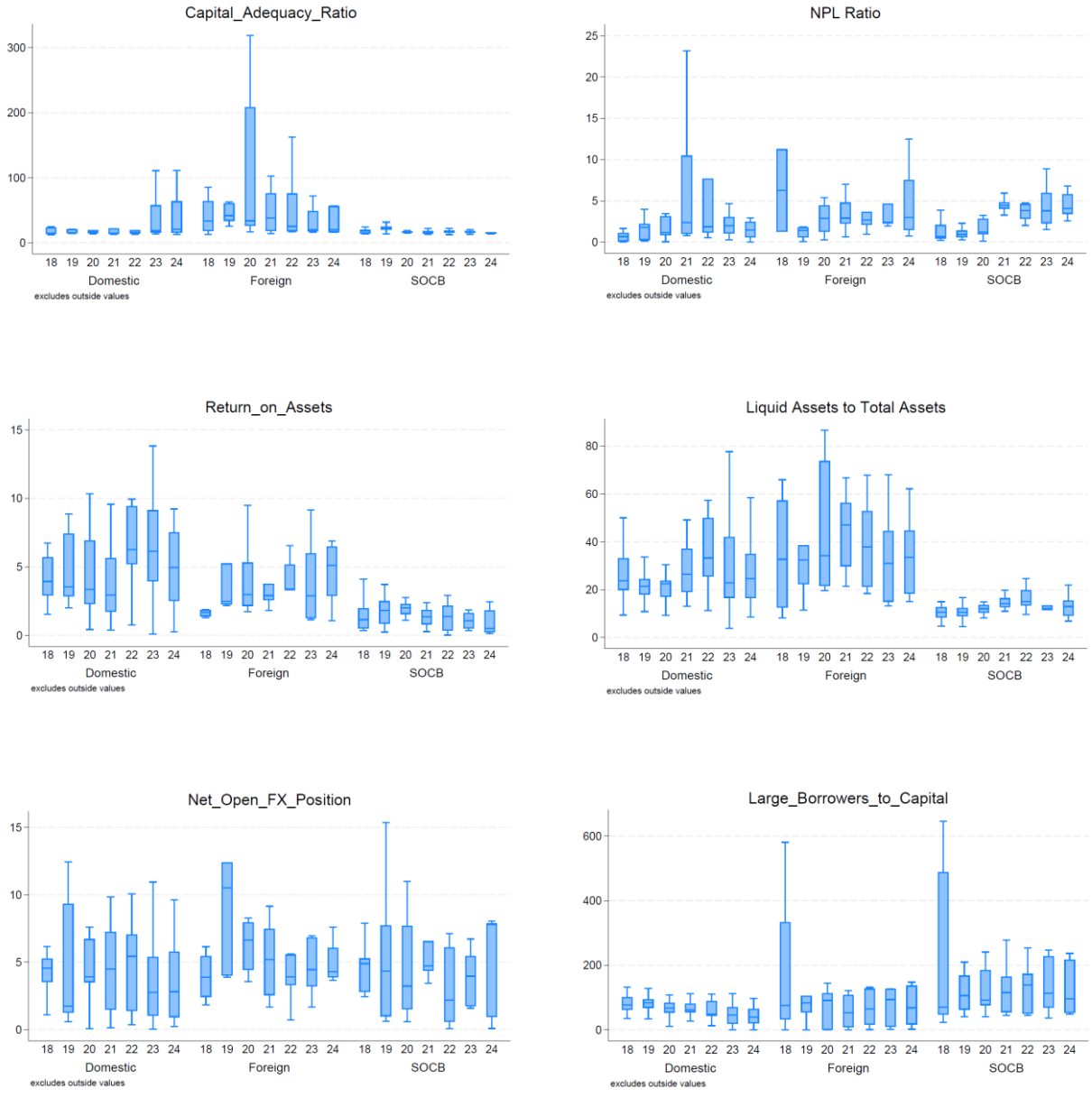
FX Loans/Total Loans*



*Date for square for Uzbekistan is 2019.

Source: IMF.

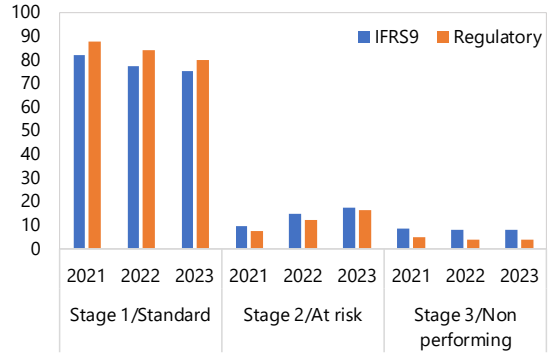
Annex Figure 6. Uzbekistan: Performance by Bank Group
(percent)



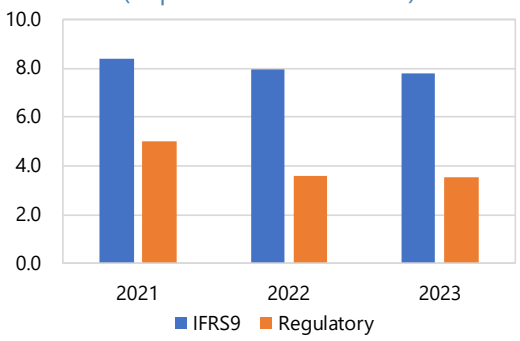
Source: CBU.

Annex Figure 7: Uzbekistan: Asset Quality

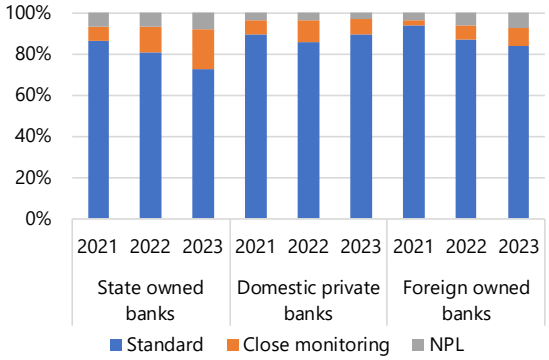
Asset quality, IFRS9 vs. regulatory definitions
(In percent of total loans)



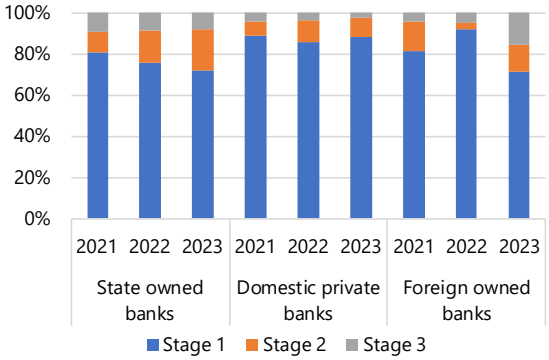
NPLs vs. IFRS 9 Stage 3
(In percent of total loans)



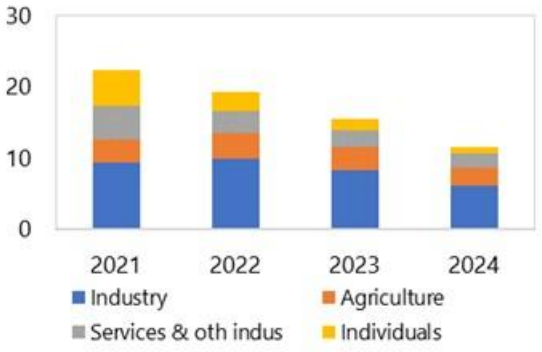
Asset quality by bank group, regulatory
(In percent of total loans)



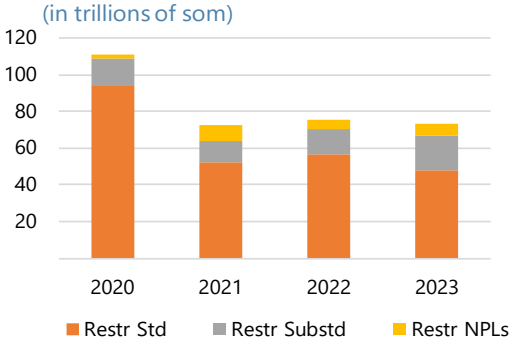
Asset quality by bank group, IFRS
(In percent of total loans)



Restructured loans by industry
(In percent of total loans)

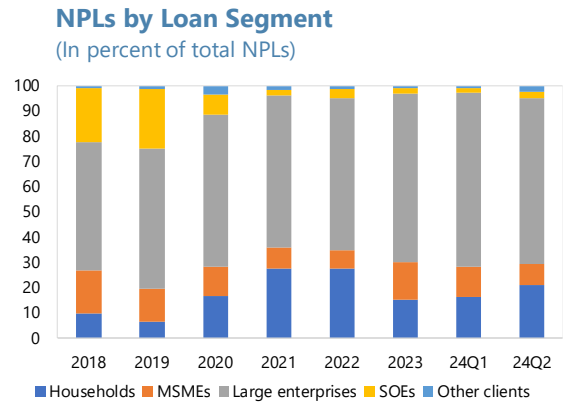


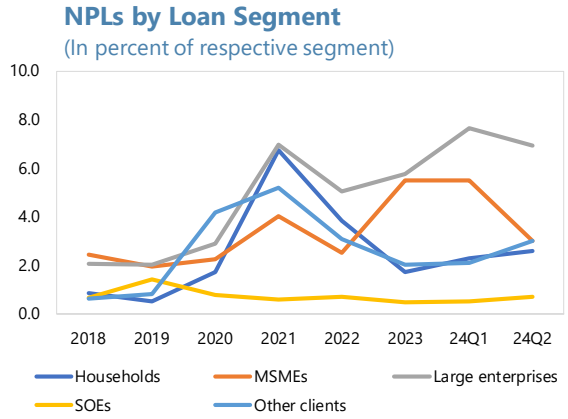
Restructured loans by category
(in trillions of som)

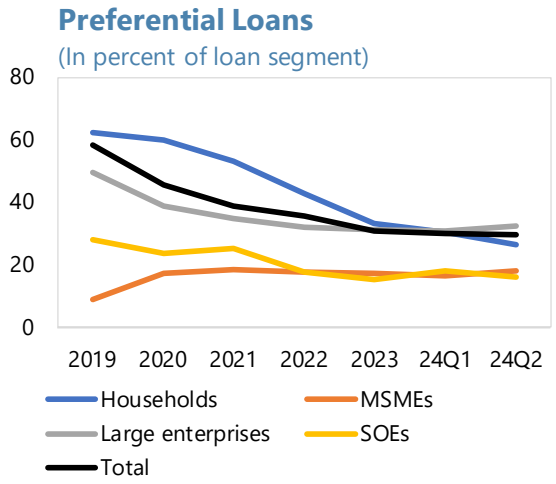


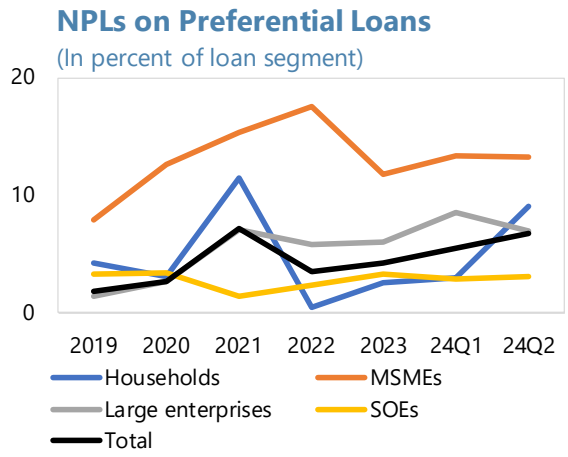
Source: CBU, IMF staff estimates.

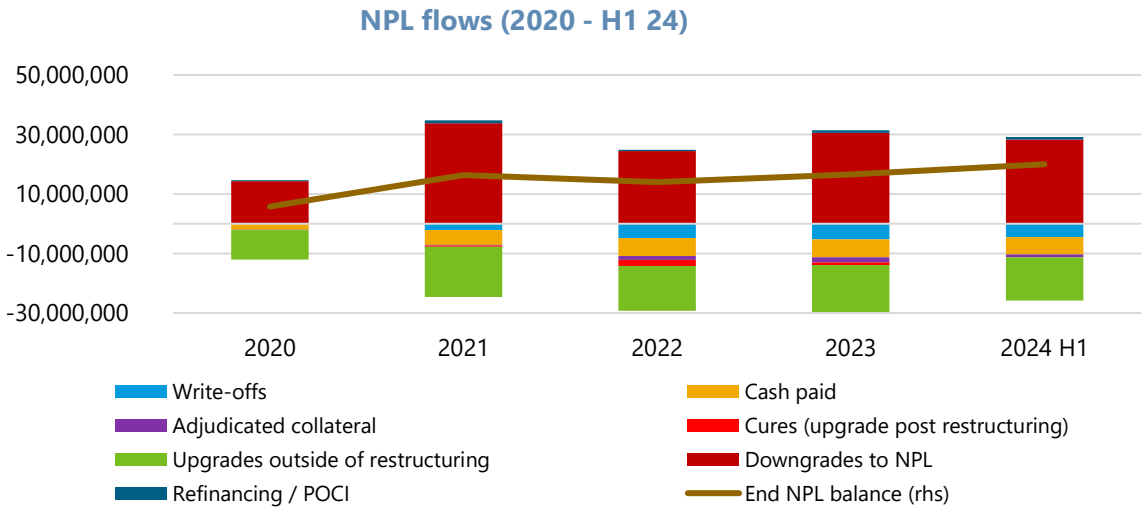
Annex Figure 8. Uzbekistan: Non Performing Loans







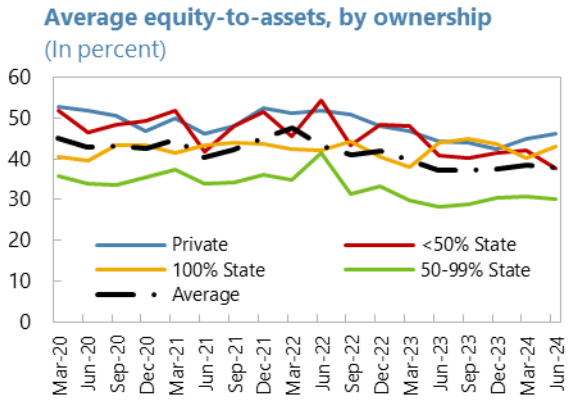




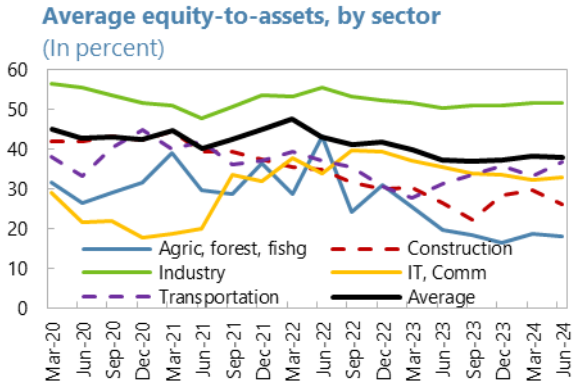
Sources: CBU, IMF staff estimates.

Annex Figure 9. Uzbekistan: Corporate Sector Finances

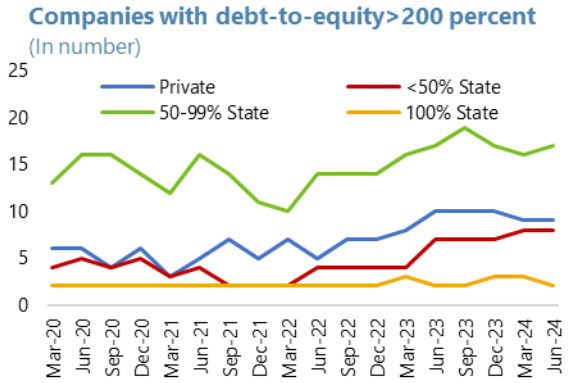
Private companies generally have higher equity than those with state ownership.



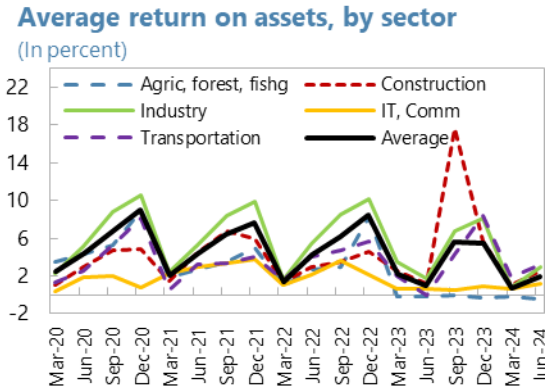
Firms in agriculture and construction have the lowest equity ratios.



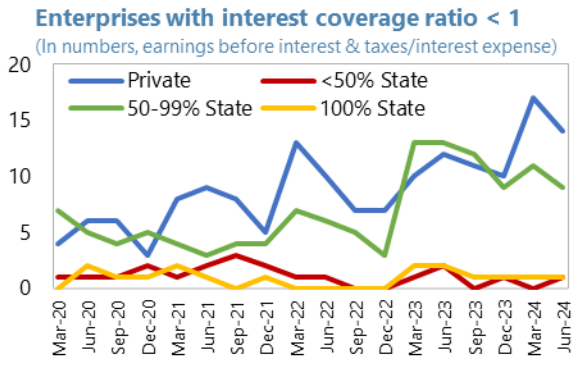
Majority state-owned companies account for much of the companies with high debt.



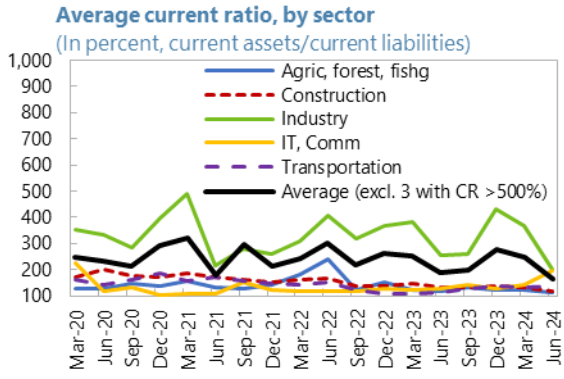
Agriculture and IT/communication sectors have experienced negative/low profitability for some time.



Private and majority state owned firms account for most of the companies with low interest coverage ratios.



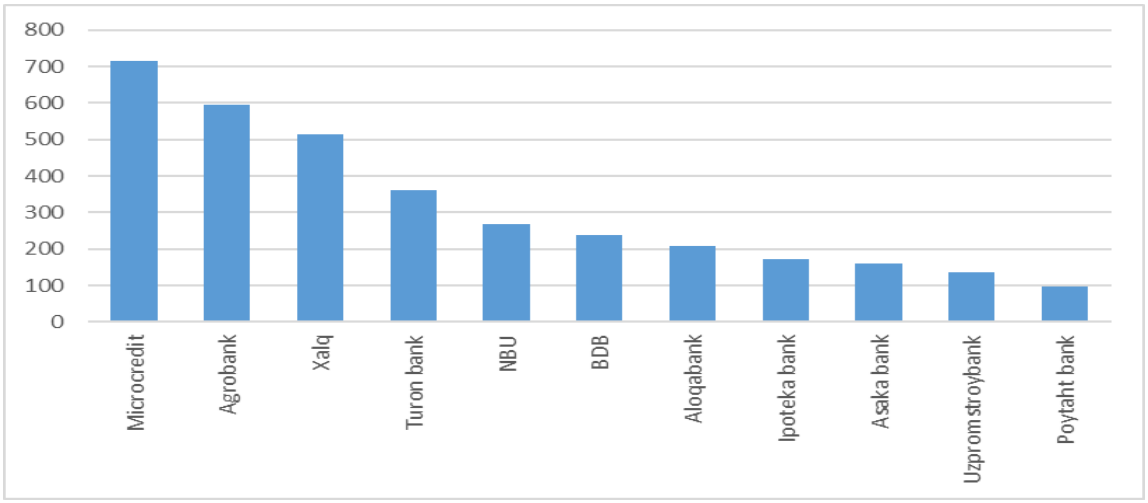
IT/communications' firms current ratios have increased in recent quarters.



Sources: CBU, IMF staff estimates. Based on a sample of 70 joint stock companies accounting for 35 percent of bank loans to NFCs.

Annex Figure 10. Cumulative Capital Injections in 2017-2024

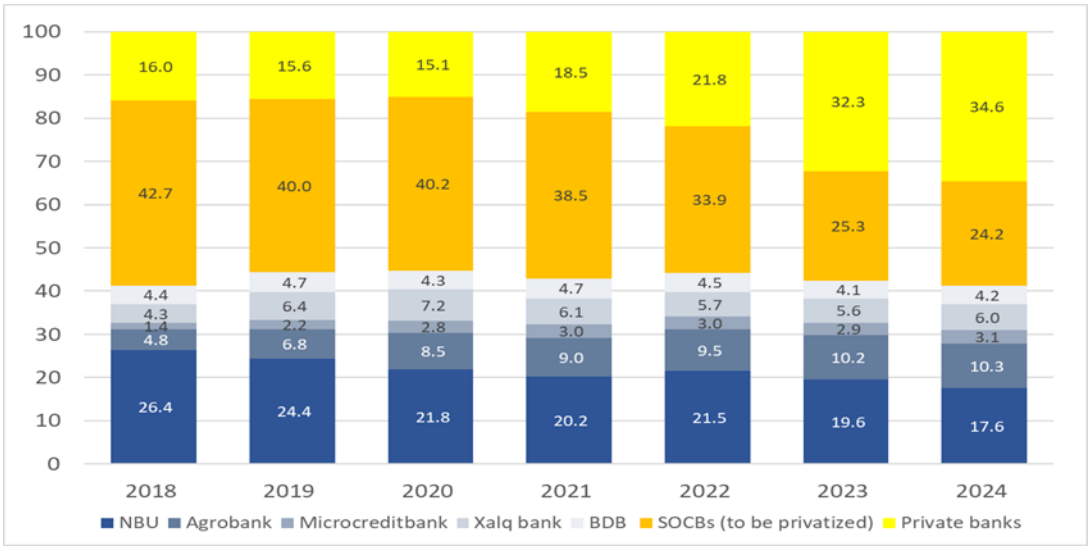
as % of SOCBs 2017 capital



Source: WB calculations based on the data received from MoEF and UFRD's annual reports.

Market Share of the Policy Banks

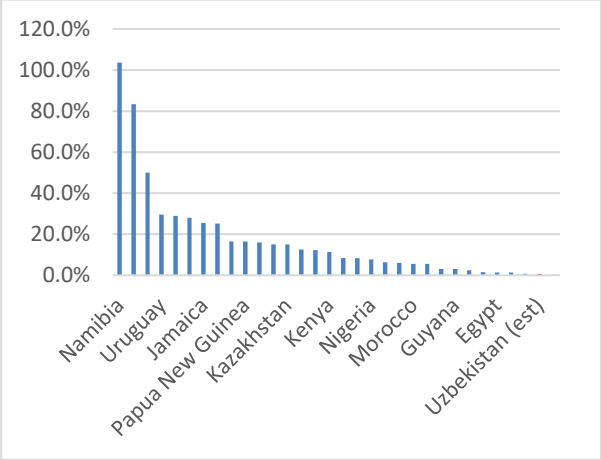
(Share of assets)



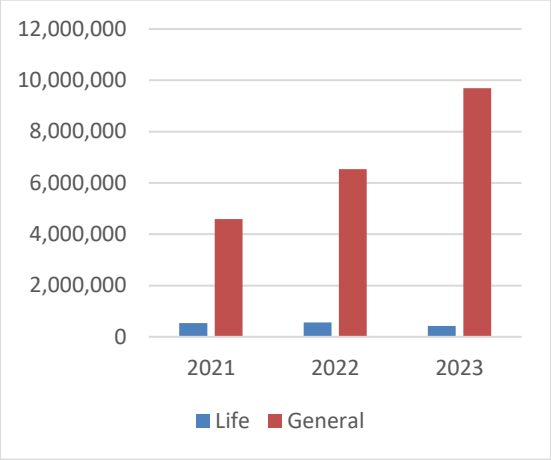
Source: CBU.

Annex Figure 11. Insurance and Capital Market Sector

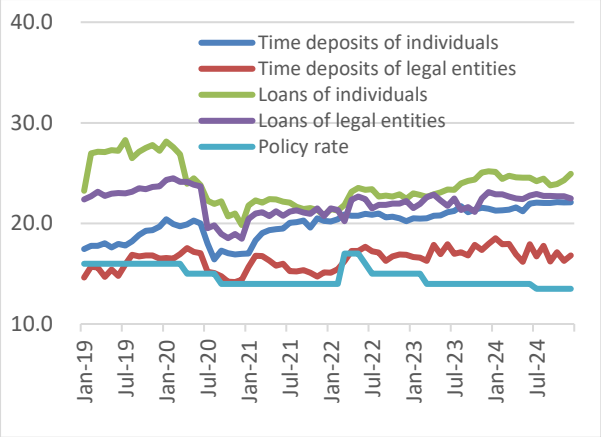
Total pension assets to GDP, 2023



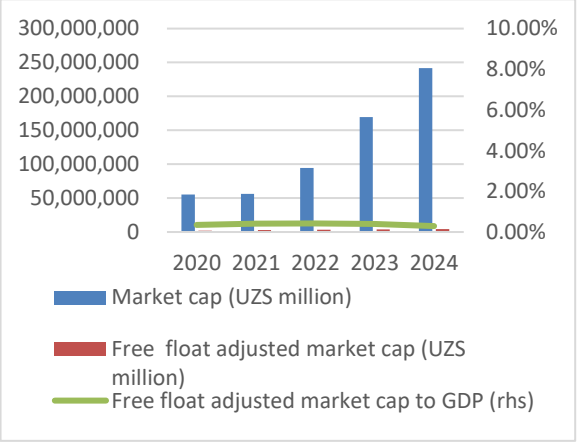
Insurance assets (millions of som)



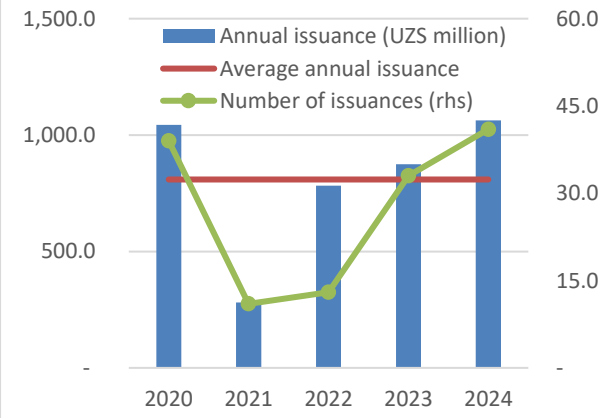
Interest rates on deposits and loans



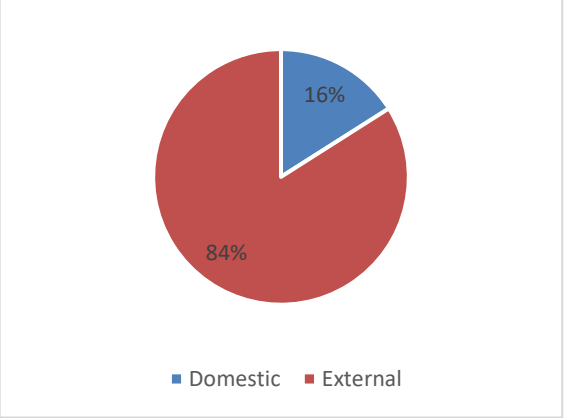
Free float adjusted market capitalization



Issuance of corporate bonds



Composition of public debt



Sources: OECD, NAPP, CBU, TSA Taskhent, MOEF

Annex Table 1. Uzbekistan: Selected Economic Indicators, 2020-2030

(Percent change, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
National income											
Nominal GDP (in trillions of Sum)	668	821	996	1,204	1,455	1,733	2,005	2,282	2,577	2,907	3,277
Population (in millions)	33.9	34.6	35.3	36.0	36.9	37.7	38.5	39.3	40.1	41.0	41.8
GDP per capita (in U.S. dollars)	1,960	2,238	2,555	2,849	3,113	3,487	3,805	4,113	4,443	4,805	5,193
Real sector				(Annual percent change)							
GDP at current prices	12.3	22.8	21.3	21.0	20.8	19.1	15.7	13.8	12.9	12.8	12.7
GDP at constant prices	1.6	8.0	6.0	6.3	6.5	5.9	5.8	5.7	5.7	5.7	5.7
GDP deflator	10.6	13.7	14.5	13.8	13.3	12.5	9.4	7.7	6.8	6.7	6.6
Consumer price index (eop)	11.2	10.0	12.3	8.7	9.8	8.4	6.5	5.0	5.0	5.0	5.0
Consumer price index (average)	12.9	10.8	11.4	10.0	9.6	9.0	7.4	5.9	5.0	5.0	5.0
Money and credit				(Annual percent change)							
Reserve money	15.4	28.3	31.4	4.9	9.5	9.2	8.8	8.2	8.0	8.0	8.0
Broad money	17.7	29.7	30.2	12.2	30.6	19.4	16.3	16.1	15.8	15.7	15.6
Credit to the economy	34.4	18.4	21.4	23.2	14.0	19.3	16.0	14.0	13.1	12.9	12.9
Velocity (in levels)	6.0	5.6	5.3	5.7	5.2	5.2	5.2	5.1	5.0	4.9	4.7
				(Percent of GDP)							
Broad money	16.8	17.7	19.0	17.6	19.0	19.1	19.2	19.6	20.1	20.6	21.1
Credit to the economy	42.0	40.5	40.5	41.2	38.9	39.0	39.1	39.1	39.2	39.2	39.3
External sector				(Percent of GDP)							
Current account	-4.6	-6.3	-3.2	-7.6	-5.0	-5.0	-4.8	-4.8	-4.7	-4.7	-4.7
External debt	52.6	51.8	49.2	54.5	57.2	55.8	55.5	55.0	54.5	53.4	53.0
				(Annual percent change)							
Exports of goods and services	-14.6	13.1	27.5	19.5	4.5	12.2	10.8	9.2	8.1	8.6	7.9
Imports of goods and services	-14.9	23.4	27.6	19.6	2.3	10.6	8.9	7.6	7.6	7.5	6.6
Exchange rate (in Sums per U.S. dollar; eop)	10,477	10,838	11,225	12,339	12,920	...	...	...	...	...	...
Exchange rate (in Sums per U.S. dollar; ave)	10,054	10,609	11,047	11,736	12,653	...	...	...	...	...	...
Real effective exchange rate CPI based (2015=100, - = dep)	65.5	65.3	61.8	58.8	55.4	54.2	53.3	52.3	51.4	50.7	50.1
Gross international reserves (in billions of U.S. dollars)	34.9	35.1	35.8	34.6	41.2	43.1	43.2	43.2	43.2	43.2	43.2
Gross international reserves (months of imports)	15.0	11.8	10.1	9.5	10.2	9.8	9.2	8.5	7.9	7.4	6.2
Government finance				(Percent of GDP)							
Consolidated budget revenues 1/	24.0	24.9	28.8	26.7	26.5	26.3	26.4	26.5	26.6	26.7	26.7
Consolidated budget expenditures 1/	27.9	29.9	32.4	31.6	29.7	29.3	29.4	29.5	29.6	29.7	29.7
Consolidated budget balance	-3.9	-5.0	-3.6	-4.9	-3.2	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0
Adjusted revenues 2/	23.1	23.3	27.7	25.9	25.5	25.3	25.5	25.6	25.7	25.8	25.9
Adjusted expenditures 2/	26.0	27.4	31.3	29.9	27.8	27.3	27.8	28.0	28.1	28.1	28.2
Adjusted fiscal balance	-2.9	-4.1	-3.7	-4.0	-2.3	-2.0	-2.3	-2.3	-2.3	-2.3	-2.3
Policy lending	1.0	1.3	0.0	0.9	0.9	1.0	0.7	0.7	0.7	0.7	0.7
Overall fiscal balance	-4.0	-5.4	-3.6	-4.9	-3.2	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0
Total public & publicly guaranteed debt	33.7	31.7	30.5	32.2	32.6	33.3	33.2	32.8	32.6	31.8	31.5
Labor market 3/											
Formal sector employment growth (percent)	3.0	8.1	2.5	3.0	2.9	3.0	3.0	3.0	3.0	3.0	3.0
Working-age population growth (percent)	1.0	1.0	0.9	1.1	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Unemployment rate (percent)	10.5	9.6	8.9	6.8	5.5	5.0	4.5	4.0	3.7	3.4	3.1
Labor migrants (millions)	1.8	1.5	1.9	2.0	1.4	1.4	1.4	1.4	1.4	1.5	1.5

Sources: Country authorities; and IMF staff estimates.

1/ Beginning in 2022, off-budget accounts of ministries and agencies were included in the budget and all privatization receipts are treated as financing.

2/ Adjusted fiscal data are budget data adjusted for financing operations, such as equity injections, policy lending, and privatization receipts before 2022.

Annex Table 2. Financial Soundness Indicators, 2017-2024

(in percent)

	2017	2018	2019	2020	2021	2022	2023	Nov-24
Core FSIs								
Regulatory capital to risk-weighted assets	18.8	15.6	23.5	18.4	17.5	17.8	17.5	17.4
Tier 1 capital to risk-weighted assets	16.5	14.3	20.4	15.2	14.6	14.5	14.1	14.2
Nonperforming loans net of provisions to capital	3.0	4.7	2.6	3.6	13.1	9.0	9.9	11.6
Common Equity Tier 1 capital to risk-weighted assets			20.4	15.2	14.6	14.4	14.1	14.2
Capital to assets (leverage ratio)	10.6	10.3	16.7	13.1	13.2	12.2	13.0	13.3
Nonperforming loans to total gross loans	1.2	1.3	1.5	2.1	5.1	3.5	3.5	4.2
Provisions to nonperforming loans	54.0	46.7	56.7	63.7	45.9	46.6	36.7	36.0
Return on assets	1.9	2.0	2.1	2.2	1.3	2.5	2.6	1.7
Return on equity	17.1	16.2	13.0	10.2	6.1	13.3	14.2	9.0
Interest margin to gross income	32.5	48.4	50.7	54.3	49.0	42.1	40.8	39.1
Noninterest expenses to gross income	59.3	54.4	49.5	45.1	47.1	46.5	46.2	53.0
Liquid assets to total assets	23.6	13.6	13.9	15.4	18.6	21.5	16.2	18.4
Liquid assets to short-term liabilities	55.7	41.2	40.3	39.9	46.9	47.3	37.1	42.1
Liquidity coverage ratio			208.5	224.5	189.6	211.6	164.8	191.0
Net stable funding ratio			112.8	109.9	115.4	115.6	111.8	116.3
Net open position in foreign exchange to capital	14.0	2.3	11.3	4.0	6.0	1.7	4.5	3.5
Additional FSIs								
Large exposures to capital			165.2	223.9	221.1	223.1	183.7	169.0
Gross asset position in financial derivatives to capital			0.2	0.2	0.2	0.2	0.1	0.2
Gross liability position in financial derivatives to capital			0.1	0.2	0.3	0.4	0.4	0.6
Trading income to total income			9.5	9.9	12.7	25.0	19.2	8.3
Personnel expenses to noninterest expenses			46.1	45.2	43.4	34.6	35.6	29.6
Customer deposits to total (noninterbank) loans			36.0	35.5	42.2	47.8	46.9	52.1
FX loans to total loans			47.1	49.2	49.2	46.7	44.1	42.8
FX liabilities to total liabilities			58.1	59.7	57.5	55.4	52.5	49.9
Residential real estate loans to total gross loans			9.5	10.1	10.9	11.7	12.1	12.5

Sources: IMF Financial Soundness Indicators, CBU.