

# State-owned commercial banks' performance in Uzbekistan

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**Abstract:** Commercial banks remain central in financial intermediation in Uzbekistan due to capital market and non-bank institutions. State-owned commercial banks are dominant players in financial intermediation. This paper is focused on analysis of state-owned commercial banks based on development and social views. The standard view is that state-owned commercial banks have lower profitability despite government support due to their development and social mandate. The analysis in this paper suggested that while they have lower profitability, they have significantly contributed to financial and economic development.

**Keywords:** State-owned commercial banks, bank performance, non-performing loans (NPL).

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## I. INTRODUCTION

At the beginning of 2022, 10 state-owned commercial banks (out of 33 commercial banks in total) represented 81.46% of total banking assets and owned 81.36% of total banking capital in Uzbekistan [1]. It is expected that government ownership of banks is higher in countries with less developed financial systems [2], [3]. Despite the privatization of banks observed in many countries, state-owned commercial banks still common in numerous countries around the world. In Uzbekistan, state-owned commercial banks still dominant and operate in retail commercial banking sector. This type of bank collects deposits and uses them to give credit to firms and individuals, hence acting as first-tier (e.g. they interact directly with final borrower) banks on both the asset and liability sides [4]. While state-owned commercial banks fulfil the same type of operations as private commercial banks, they generally have social and development objectives.

Whether government intervention is good or bad in banking sector is a matter of dispute because state-owned commercial banks work satisfactorily in some countries and disappointingly in others [5]. To analyse this, it is important to evaluate social and development impact of state-owned commercial banks. In developing economies such as Uzbekistan, it is rather important to analyse the social and development impact of state-owned commercial banks and understand their role in the economy. Therefore, the purpose of this study is to analyse the role of state-owned commercial banks and how they support the economy of Uzbekistan.

## II. LITERATURE REVIEW

There are two basic views that justify the existence of state-owned banks: social and development views. Social view emphasizes how government intervention in banking sector addresses market imperfections that leave socially profitable investments underfinanced by private banks [5]. Moreover, development view emphasizes on institutional failures that prevent the development of financial sector and promote the development of specific sectors of the economy that was not served by private banks [6]. The premise is that government intervenes in banking sector in order to improve the working of the financial sector and overall functioning of the economy.

Social view supports that state-owned commercial banks follow the social objectives. For instance, state-owned banks finance projects that are socially valuable and generate positive externalities [7]. Private banks would not finance such projects because it is financially unprofitable. Therefore, existence of state-owned commercial banks is justified by such

market imperfections. State-owned commercial banks aimed to provide financial services and access to funds to people in isolated areas where private banks are not present [8]. Therefore, social view emphasizes that government intervenes in financial system in developing countries with under-developed financial system and infrastructure.

Development view, in addition, emphasizes on the importance of state-owned banks on economic growth of the country. Some literature evidenced that state-owned commercial banks are necessary to stimulate economic growth. For instance, Andrianova et al. [9] studies showed that government ownership of banks has positive impact on long-run economic growth for the country. Authors utilized cross-country data for the period 1995-2007 and empirically evidenced that countries with higher state-owned commercial banks grew faster economically compared to countries with little or no state-owned banks. Study suggested that state-owned commercial banks are not harmful for economic growth. In some occasions, Korner and Schnabel [10] found similar results empirically in case of less developed countries which are in line with previous study. Other studies found opposite results. While La Porta et al. [3] found a strong negative relationship between state-owned commercial banks and economic growth, Yeyati et al. [5] and later Panizza [11] found no evidence that state-owned banks promote economic growth. However, often those studies are criticized for omitting variable biases and causal effect [9]. Overall, existing cross-country studies provide controversies in empirical findings and ambiguous results concerning the impact of state-owned commercial banks on economic growth.

Based on these views, state-owned banks seek social and development objectives which can be harmful for their financial performance. Kunt and Huizinga [12] and Micco and Panizza [13] found out that state-owned banks have lower profitability compared to private banks in case of several developing countries. This argument is supported by Yeyati et al. [5] who found out that state-owned banks do not maximize profits but focus on social welfare. In this case, it can be expected that state-owned banks has low profitability but have social benefits and positive externalities. This is characterized by activity of state-owned banks' low investment private sector, higher non-performing loans and more loans to the public sector that generated higher social return but lower financial return. While these characteristics tend to make state-owned banks less profitable, they are perceived as safer by offering lower rate to deposits and credits. However, there are some evidences was found regarding the positive impact of state ownership on bank performance. In some country cases, Yeyati et al. [5] found out that state-owned banks are more profitable than private banks regardless of higher level of non-performing loans. This shows that characteristics of state-owned banks has changed in some country cases because they involve in retail banking operations as first-tier banks to compete with private banks.

### III. OVERVIEW OF STATE-OWNED COMMERCIAL BANKS IN UZBEKISTAN

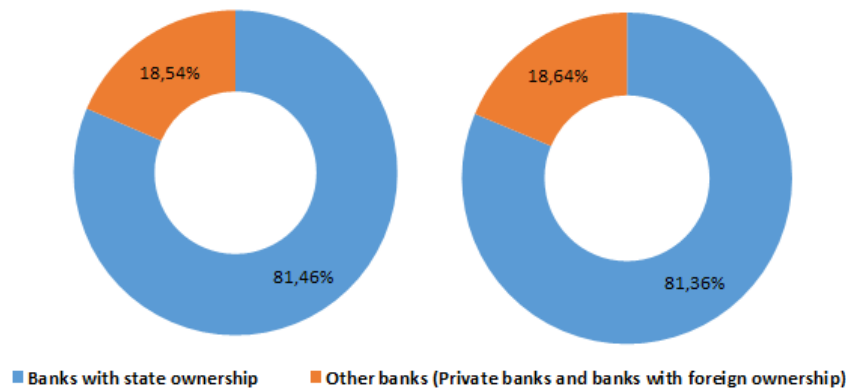
Uzbekistan's commercial banking sector is represented by 33 banks and 10 of which are owned by government: Ministry of Finance and Fund for Reconstruction and Development of Uzbekistan, Fund for development of ICT of Uzbekistan and State Asset Management Agency of Uzbekistan. State-owned commercial banks are classified into two categories: fully state-owned (100% shares owned by government) and majority state-owned (more than 89% shares owned by government). Two state banks, namely National Bank of Uzbekistan and Xalq Banki (People's Bank) is fully state-owned as of January 1, 2022. Majority (more than 89%) of other eight state-owned banks' shares are owned by government (Tab.I).

**TABLE I. Government's share in each state-owned commercial bank as of January 1, 2022 (Data source: Author's own findings from annual report of each state-owned bank)**

#	Name of state-owned commercial bank	Ministry of Finance	Fund for Reconstruction and Development of Uzbekistan	Fund for Development of ICT Uzbekistan	Others (Individuals, private companies, etc)
1	National Bank of Uzbekistan	40.70%	59.30%	-	-
2	Xalq Banki	77.60%	22.40%	-	-
3	UzSanoatQurilishBank	13.06%	82.09%	-	4.85%
4	Asaka Bank	10.73%	88.24%	-	1.03%
5	Aloqa Bank	5.66%	75.40%	8.49%	10.45%
6	Qishloq Qurilish Bank	74.45%	23.89%	-	1.66%
7	Mikrokredit Bank	52.9%	45.5%	-	1.60%
8	Agro Bank	27.12%	70.66%	-	2.22%
9	Turon Bank	9.46%	89.31%	-	1.23%
10	Ipoteka Bank	93.70%	-	-	6.30%

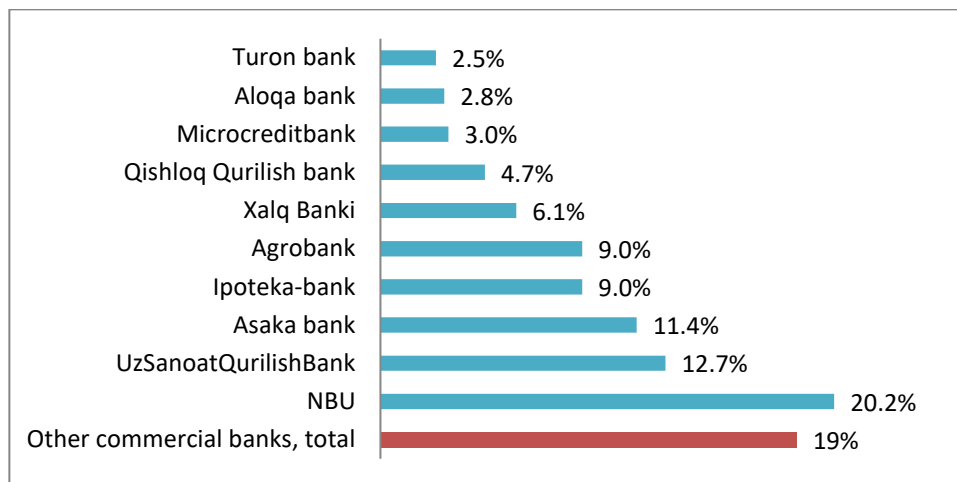
In addition, UzAgroExportBank and Poytaxt Bank state-owned banks were founded in 2017 and 2018 respectively with 100% shares owned by State Asset Management Agency of Uzbekistan [1]. The size (in terms of assets and number of branch offices) of these banks is rather small and therefore, these two banks are excluded in this study.

As of January 1, 2022, these 10 state-owned commercial banks (including 2 new state-owned banks) represented 81.46% (362.42 trillion Uzbek soums)<sup>1</sup> of total banking assets and owned 81.36% (57.69 trillion Uzbek soums) of total banking capital in Uzbekistan (Fig.1). For this period, total banking assets in Uzbekistan was equivalent to 41.05 billion US dollars and 33.44 billion US dollars of which were held by state-owned commercial banks<sup>2</sup>. Moreover, total bank equity was equivalent to 6.54 billion US dollars and 5.32 billion US dollars of which are owned by state-owned commercial banks.



**FIGURE 1. State-owned banks' share in total banking assets (left) and equity (right) as of January 1, 2022 (Data source: <https://cbu.uz/en/statistics/bankstats/575232/>)**

National Bank of Uzbekistan is the largest state-owned commercial bank in Uzbekistan with 20.2% (89.92 trillion UZS) share in total banking assets (Fig.2). UzSQB is the second largest state-owned commercial bank with 12.7% (56.5 trillion UZS) share and Asaka Bank is the third largest with 11.4% (50.8 trillion UZS) share.



**FIGURE 2. Total asset distribution by state-owned commercial banks as of January 1, 2022 (Data source: Central Bank of Uzbekistan)**

Despite the ongoing privatization process of state banks around the world, state-owned commercial banks still dominate the commercial banking sector in Uzbekistan. Government has largest portion in share capital in large banks in Uzbekistan and these banks operate in retail commercial banking sector. This type of bank collects deposits and uses them to give credit to firms and individuals, hence acting as first-tier (e.g. they interact directly with final borrower) banks on both the asset and liability sides [4].

<sup>1</sup> Uzbek soums is a national currency.

<sup>2</sup> As of December 31, 2021, 1 USD= 10837,66 Uzbek soums established by Central Bank of Uzbekistan. Author calculated the equivalent values in US dollars based on the established foreign exchange rate.

While state-owned commercial banks in Uzbekistan perform the same type of operations as private commercial banks. Acting as first tier-banks or universal commercial banks, state-owned commercial banks also collect deposits in addition to funds received by government and use them to give loans for both state and private companies, and individuals.

At the beginning of 2022, total bank loans of all commercial banks in Uzbekistan was 326.39 trillion Uzbek soums (equivalent to 30.12 billion US dollars) while total bank deposits of all banks was 156.19 trillion Uzbek soums (equivalent to 14.41 billion US dollars). The share of state-owned commercial banks in total bank loans and deposits is large. On assets side, total bank loans provided by all state-owned commercial banks represented 85.81% (280.07 trillion Uzbek soums or equivalent to 25.84 billion US dollars) of total bank loans in Uzbekistan (Fig.3). On liabilities side, total bank deposits held by all state-owned commercial banks represented 66.74% (104.24 trillion Uzbek soums or equivalent to 9.62 billion US dollars) of all total bank deposits in the country.

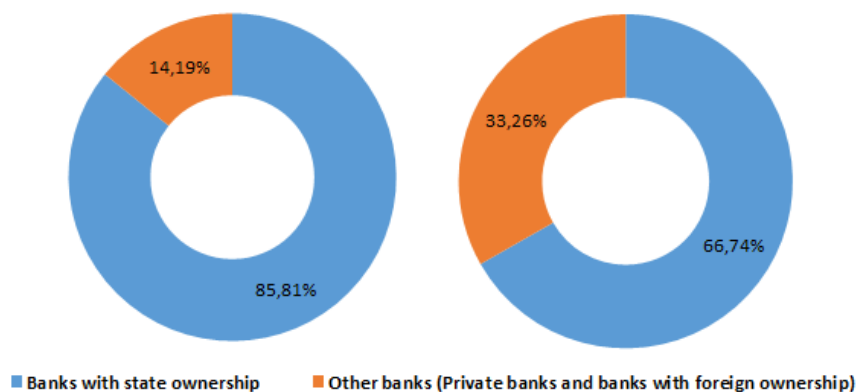


FIGURE 3. State-owned banks’ share in total bank loans (left) and deposits (right) as of January 1, 2022 (Data source: <https://cbu.uz/en/statistics/bankstats/575232/>)

#### IV. STATE-OWNED COMMERCIAL BANK’S PERFORMANCE

Commercial banks are central in financial intermediation in transition countries like Uzbekistan and state-owned commercial banks are dominant financial intermediaries in Uzbekistan. Therefore, state-owned banks are considered as significant in financial and economic development. As shown in Table II, total bank assets to GDP were 60.8% and 60.6% in 2020 and 2021 respectively. Bank size and financial depth of Uzbekistan is dominantly contributed by state-owned banks. State-owned commercial banks’ assets as percentage of GDP were 51.6% and 49.3% during 2020-2021. While this ratio of state-owned banks is decreasing for the given period, dominance of state-owned banks in the banking sector contributed to the low level of financial intermediation constraining access to finance by private companies. In comparison, this ratio is high in developed countries such as 454% in France, 266% in Germany, 284% in UK and 195% in USA [14] where there is no state-owned commercial banks. However, total bank assets as percentage of GDP was 104% in Turkey, 92% in Brazil, 100% in Russia and 45.4% in Kazakhstan where state-owned commercial banks have strong presence. Thus, in countries where state has no intervention banking sector outgrows the real economy while pace of financial development is slow in countries with dominance of state-owned banks.

TABLE II. Banking system indicators to GDP ratio 2020-2021 (Data source: [1])

Indicators	2020	2021
<b>Total Bank Assets (% GDP)</b>	<b>60.8%</b>	<b>60.6%</b>
<i>State-owned commercial banks</i>	51.6%	49.3%
<i>Other commercial banks<sup>3</sup></i>	9.2%	11.2%
<b>Total Bank Loans (% GDP)</b>	<b>46.0%</b>	<b>44.4%</b>
<i>State-owned commercial banks</i>	40.6%	38.1%
<i>Other commercial banks</i>	5.4%	6.3%
<b>Total Bank Deposits (% GDP)</b>	<b>19.1%</b>	<b>21.3%</b>

<sup>3</sup> This includes private banks and banks with foreign ownership.

<i>State-owned commercial banks</i>	13.7%	14.2%
<i>Other commercial banks</i>	5.4%	7.1%
<b>Total Bank Equity (% GDP)</b>	<b>9.7%</b>	<b>9.7%</b>
<i>State-owned commercial banks</i>	8.1%	7.9%
<i>Other commercial banks</i>	1.6%	1.8%

In high-income countries, bank loans as percentage of GDP exceeded 100% which is four times the average ratio in low-income countries [15]. Bank loans as percentage of GDP showed that state-owned banks are the main financial intermediary in the country as they provided 40.6% and 38.1% of bank loans to the real sector of the economy as percentage of GDP during 2020-2021 (Tab.II). Possible explanation of low bank loan as percentage of GDP is the state-owned banks dominance in funding the real sector. Uzbekistan's state-owned banks support the government's economic priorities and state development programs mostly through subsidized loans offered to households (e.g. loans to women and family entrepreneurship) and specific sectors of the economy [16]. Private entities, especially small and medium enterprises, find it difficult to access to funds in state-owned commercial banks due to high lending rates, borrowing costs and collateral requirements. Therefore, financial system remains underdeveloped in Uzbekistan with state's control of banking loans and its direction to state programs. While small and medium enterprises are the most dynamic sectors of the economy, limited or no access to funds through state-owned commercial banks can be harmful for economic development in low-income country [17].

Table II also showed that total bank deposits as percentage of GDP was 19.1% and 21.3% in 2020 and 2021 respectively. A measure of success of banking systems in providing retail banking services to households in the form of payment services and savings, is their capacity to attract deposits [17]. Overall, state-owned commercial banks deposits as percentage of GDP developed slower than other banks. The difference in this ratio between two bank types shrank indicating that state-owned commercial banks' capacity to collect deposits from households has decreased. Explanation can be state-owned commercial banks accumulate loans from domestic funding institutions (Ministry of Finance and Fund for Reconstruction and Development of Uzbekistan) and international funding (ADB, EBRD, World Bank, Islamic Development Bank) which are directed from government. For instance, the 32% of NBU's liabilities consists of long-term government-related funding sources and 29% of it is composed of deposits [18]. State-owned commercial banks have better access to cheap source of government funding sources to fund state program and strategic projects while private banks focused more on higher cost of deposit accumulation to loan their productive private sectors. In contrast, capacity of private banks to attract deposits has increased improving these banks' ability to intermediate funds to finance private sectors.

Therefore, existence of state-owned commercial banks is justified by social view. Social view emphasizes that state-owned banks extend their operations and provide financial services to people in the areas where not served by private banks [8]. Others have asserted that social objective of state-owned commercial banks is to promote access to bank services for population in rural areas [19]. This is especially observed in case of underdeveloped or developing countries with weaker financial systems and scarcity of capital [10].

There is an argument that state-owned commercial banks should offer universal banking services and create positive externalities. Government intervene in banking sector in order to guarantee access to financial services and ensure that it is universally provided [19]. State-owned commercial banks provide universally accessible financial services that result in positive externalities such as economic growth and poverty reduction in rural areas (ibid). Therefore, existence of state-owned commercial banks is justified due to their extension of banking services in rural and isolated areas because private banks may not find it profitable to open branches in those areas.

This claim is supported by the case of state-owned commercial banks in Uzbekistan. State-owned commercial banks provide retail banking services through its extensive number of branches, banking service centers (mini-banks and service offices) and 24/7 self-service offices in villages and towns in Uzbekistan. Furthermore, network of state-owned banks infrastructure is further expanding annual basis in rural areas to enlarge banking services coverage for the rural population and adding new types banking services (e.g. new deposit, loan and payment types). While total bank branches in Uzbekistan were 860 as of January 1, 2022, 695 (80.81%) branches were owned and operated by state-owned commercial banks (Tab.III). All state-owned commercial banks owns and operates 69.77% of all banking service centers and 68.74% of all 24/7 self-service offices owned by commercial banks in Uzbekistan.

**TABLE III. State-owned banks branches, banks service and self-service offices across the country as of January 1, 2022 (Data source: Author's own findings from annual report of each state-owned bank)**

#	Name of state-owned commercial banks	Branches	Banking service centers <sup>4</sup> (service offices and mini-banks)	24/7 Self-service offices <sup>5</sup>	ATM's (including infokiosks <sup>6</sup> )
	<i>Commercial bank total<sup>7</sup></i>	<b>860</b>	<b>1 244</b>	<b>2 287</b>	<b>12 940</b>
1	Xalq Banki	197	106	453	1 311
2	Agro Bank	170	183	498	589
3	National Bank of Uzbekistan	75	77	27	641
4	Mikrokredit Bank (MK Bank)	71	85	220	529
5	UzSanoatQurilishBank (UzSQB)	44	48	97	470
6	Qishloq Qurilish Bank	44	56	80	428
7	Ipoteka Bank	39	123	71	636
8	Asaka Bank	21	19	57	217
9	Turon Bank	20	78	18	188
10	Aloqa Bank	14	93	51	196
	<i>State-owned banks Total<sup>8</sup></i>	<b>695</b>	<b>868</b>	<b>1 572</b>	<b>5 205</b>
	<i>Percentage share</i>	<i>80.81%</i>	<i>69.77%</i>	<i>68.74%</i>	<i>40.22%</i>

State-owned commercial banks are larger in terms of assets and have extensive branches and banking offices to increase access for under-banked and social support in rural areas. This indicates they are better geographically diversified in the country. For instance, Xalq banki has the largest number of branches, banking service centers and self-service offices extended to village and towns with large number of mobile cashboxes and universal cashier services to promote access to pension funds and to support for population for government's allocation of social benefit (e.g. child benefit, retirement funds). Agro Bank has also large number of branches in villages and towns to promote access to financial services for rural farmers and agricultural entities, while Mikrokredit Bank has the same social objective servicing small and medium enterprises, tradespersons and individual entrepreneurs in rural areas.

Surprisingly, the number of ATMs owned by state-owned commercial banks was 5027 units or equal to 40.22% of all ATMs owned by commercial banks in Uzbekistan. However, a large number of ATMs owned by private banks are concentrated on urban areas rather than rural areas. By emphasizing on branches and banking service centers, state-owned banks less focused on automatizing its banking services in rural areas. Having extensive branches, bank offices and other banking infrastructure may increase the cost of operations and maintenance. While state-owned commercial banks have social mandate, they do not maximize profits [11]. Therefore, they tend to be larger than private banks and can be expected that they operate in rural and isolated areas at a higher costs and with low profitability.

Several evidences found by various authors showed that state-owned banks have higher non-performing loans compared to private banks [19], [20], [21], [11]. This is also evidenced in case of state-owned banks in Uzbekistan. During 2019-2021, total non-performing loans of the banking sector increased from 3.17 trillion Uzbek soums to 16.97 trillion Uzbek soums. Non-performing loans of state-owned banks have largest share in the total non-performing loans of the banking system: 88.64% in 2019, 89.33% in 2020 and 88.78% in 2021 (Fig.4).

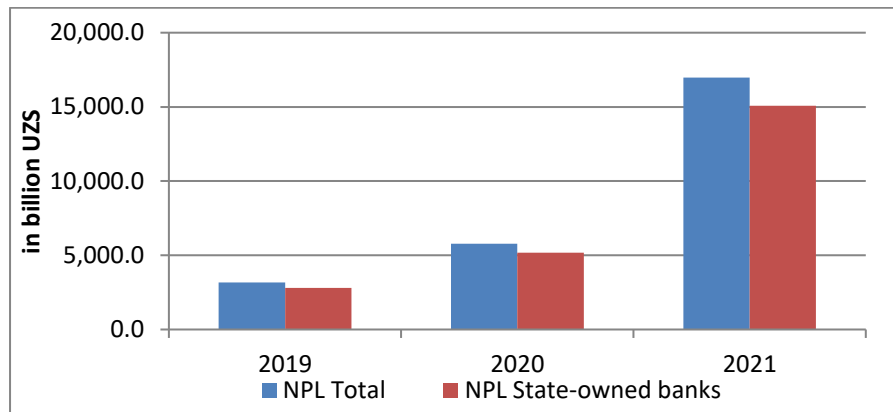
<sup>4</sup> Banking service center is a small banking service location under the control of regional branch. They provide standard banking services including regular transactions, cashier services, money transfers and exchange offices which are also equipped with ATMs and Infokiosks

<sup>5</sup> 24/7 self-service offices are small bank boxes equipped with ATMs and Infokiosks for cash withdrawals and bill payments. These offices are established in public areas such as bazaars, amusement parks, hypermarkets, universities, trading complexes and near branch offices and banking service centers where demand for cash withdrawals are high.

<sup>6</sup> Infokiosks are different from ATMs. Infokiosks provide services for bank cards such as card history, balance, online bill payments and payments for other online services without cash dispensing.

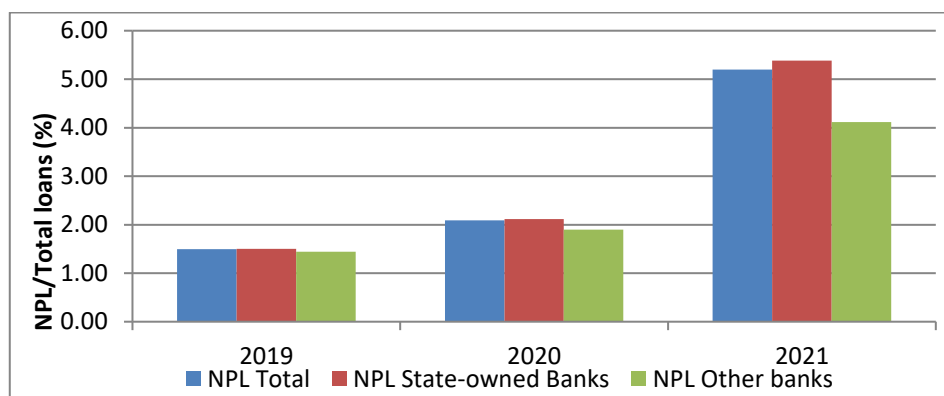
<sup>7</sup> Data obtained from Central Bank of Uzbekistan for the period January 1, 2022

<sup>8</sup> State-owned banks have no branches in other countries.



**FIGURE 4. NPL of banking sector total and state-owned banks during 2019-2021 (Data source: Central Bank of Uzbekistan)**

State-owned banks' share of non-performing loans as percentage of total loans was increased from 1.51% to 5.38% during 2019-2021 (Fig.5). Moreover, other banks' (private and banks with foreign ownership) share of non-performing loans as percentage of total loans was increased from 1.44% to 4.11% during 2019-2021. During this period, state-owned banks had higher non-performing loan levels and in value terms, non-performing loans is more than seven times bigger than private banks.



**FIGURE 5. Share of NPL to total loans (Banking sector total, state-owned and other banks) (Data source: Central Bank of Uzbekistan)**

Some state-owned banks have stated this is due to the pandemic effect which reduced borrower capabilities. However, there are some other claims that may accurately explain the state-owned banks' asset quality deterioration. If it is looked to the lending profile of state-owned commercial banks, large borrowers are state-owned enterprises and public sector. For instance, loan portfolio is dominated by corporate clients (64.5%) and the bulk of them remained state-owned enterprises. The 57% of loan portfolio of NBU was to state-owned enterprises and the 56% of gross loan portfolio was represented by top 20 large state-owned enterprises [18]. Social policy mandate requires state-owned commercial banks to concentrate more on large state-owned enterprises lending. Large amount of loan portfolio are made up few number of large public sector borrowings. Such concentration can cause higher credit risk and possible causes of rapid increase in non-performing loans. Retail segment (e.g. small and medium enterprises, private corporations, individuals) remains low in loan portfolio in state-owned commercial banks which may diversify loan portfolio and minimize the risk of non-performing loans.

Increasing non-performing loans is expected to be detrimental for profitability of banks. However, as shown in Table IV, some state-owned bank's profitability in terms of ROA exceeded the average banking system. Only Xalq Banki's ROA was negative implying loss in 2021. This may be due to the fact that state-owned commercial banks are large enough to absorb the losses or constantly supported by the government. For instance, government regularly increases the NBU's equity to finance the needs of the economy through Fund for Reconstruction and Development of Uzbekistan [18]. These can be reasons why some state-owned commercial banks have higher profitability ratios.

**TABLE IV. Return on Assets (ROA) ratio of average banking system and selected state-owned commercial banks during 2018-2021 (Data source: Author's own findings from annual report of each state-owned bank)**

#	Name of state-owned commercial banks	2018	2019	2020	2021
	Average ROA for banking sector	2,05	2,23	2,21	1,34
1	NBU	1,00	1,50	1,20	N/A
2	Xalq Banki	3,00	0,30	2,30	-7,80
3	UzSQB	1,06	1,81	0,27	1,65
4	QQB Bank	0,90	2,00	1,40	1,80
5	Ipoteka Bank	1,55	1,83	1,80	2,40

Social policy mandate requires state-owned commercial banks to concentrate more on large state-owned enterprises lending which has a significant economic output. While state-owned enterprises produces 47% of industrial output, large amount state-owned commercial banks' financing goes to large state-owned enterprises [22]. On one hand, such concentration can cause higher credit risk and possible causes of rapid increase in state-owned commercial banks' non-performing loans due to financing inefficient state-owned enterprises. This subsequently impact on lowering the profitability of state-owned commercial banks [12], [13], [5]. On the other hand, state-owned commercial banks' lending concentration on a few number of state-owned enterprises increase their monopolistic power. Therefore, social mandate of state-owned commercial banks leads to financing high risk but low return state projects and deteriorating impact on competition in economy.

Situation in state-owned commercial banks suggest that they dominate the banking system in terms of assets and loans. They primarily finance large and inefficient state-owned enterprises and state's social programs and many of which are monopolies or dominant players in their sectors. Therefore, state-owned commercial banks have no or negative impact on economic growth [3], [5], [11]. They concentrated less on promoting the expansion of private sector. Reduction of state-owned commercial banks dominance in the banking sector or increase their financing concentration to retail commercial banking can be viable for economic development at a faster pace.

Banking sector reform in Uzbekistan established for 2020-2025 aimed to increase the share of private banks as much as 60% by 2025. Under the reform, several state-owned commercial banks need to go through transformation process in terms of supervisory, corporate governance, accounting standards and expansion their share in the retail commercial banking segment. Moreover, the 6 large state-owned commercial banks (SQB, Asakabank, Aloqa Bank, QQB, Ipoteka Bank and Turonbank) are aimed to be privatized and government intended to hold its shares in the remaining the state-owned commercial banks. Therefore, less government ownership in the banking sector and more private bank participation in the banking sector can be expected in the upcoming years.

## V. CONCLUSION

Social policy mandate requires state-owned commercial banks to concentrate more on large state-owned enterprises lending which has a significant economic output. Such concentration can cause higher credit risk and possible causes of rapid increase in state-owned commercial banks' non-performing loans due to financing inefficient state-owned enterprises. Moreover, state-owned commercial banks' lending concentration on a few number of state-owned enterprises increase their monopolistic power. Therefore, social mandate of state-owned commercial banks requires finance state's social programs and large state-owned enterprises many of which are monopolies or dominant players in their sectors. They concentrated less on promoting the expansion of private sector. Reduction of state-owned commercial banks dominance in the banking sector or increase their financing concentration to retail commercial banking can be viable for economic development at a faster pace.

State-owned banks fund the government's economic priorities and development programs of specific sectors of the economy. Private sector is often has limited access to funds through state-owned commercial banks because of high borrowing costs and collateral requirements. State's dominance in banking sector and its control of banking loans is harmful economic development of the country. This can be another reason for claiming against existence of state-owned commercial banks to eliminate its negative impact on economic development.

While state-owned banks possess significant number of branches and banking service centers in towns, banking service coverage still low in terms of number of ATMs installed in rural areas. Concentration of banking services remains on district



levels and there are also numerous village and rural areas remains unbanked. Although state-owned banks relatively well-provided banking services in the major urban centers and towns, there are remote regions and rural areas where banking services are extremely limited. Moreover, having extensive branches, bank offices and other banking infrastructure may increase the cost of operations and maintenance. They are larger than private banks and operated in rural and isolated areas at higher costs and with low profitability. Mobile banking application of each state-owned bank seems to solve such issue in rural areas in terms of card-to-card transactions and bill payments but problem remains unsolved when cash withdrawal is necessary.

Regardless of higher non-performing loans, higher costs and lower profitability, it is still unknown from social and development point of view why government remain major shareholder in many of the state-owned commercial banks. Banking reform remains crucial for creating competitive banking system and develops financial intermediation in Uzbekistan. Therefore, strengthening competitiveness in the banking sector and increasing private sector's access to funds may have developed financial services and sustain the demand for loans.

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