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THE IMPACT OF BANKS ON THE FINANCIAL STABILITY OF THE ECONOMY OF THE REPUBLIC OF UZBEKISTAN

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Abstract: This article examines the phenomenon of systemically important banks (SIBs) in the financial sector of the Republic of Uzbekistan. The criteria for identifying SIBs in accordance with the methodology of the Basel Committee on Banking Supervision and the approaches of the Central Bank of the Republic of Uzbekistan to determining the list of systemically important credit institutions are analysed. The mechanisms through which SIBs influence financial stability are investigated, including concentration risks, lending effects, and interbank contagion channels.

Key words: systemically important banks, financial stability, Basel Committee on Banking Supervision, banking sector concentration, “too big to fail” risk, capital buffer, macroprudential regulation, Uzbekistan, capital adequacy.

INTRODUCTION

The financial crisis of 2008–2009 confronted the global regulatory community with a question whose answer appeared obvious, yet proved deeply challenging: what should be done with banks whose bankruptcy the state simply cannot allow?

It was during this period that the concept of a “systemically important bank” — a credit institution whose default may trigger a chain reaction of losses affecting the entire financial sector and the real economy — became firmly established in the regulatory lexicon. According to the Financial Stability Board, in 2023 the list of global systemically important banks (G-SIBs) included 29 institutions accounting for more than 40% of the aggregate assets of the world banking system [1]. Consequently, the regulation of SIBs has become a central element of the post-crisis financial stability architecture.

The banking sector of the Republic of Uzbekistan is characterised by a high concentration of assets in five major state-owned banks, which account for more than 70% of the system’s aggregate assets. In this context, the issue of managing the risks associated with such concentration is becoming increasingly relevant, particularly as the sector continues to liberalise and expand.

LITERATURE REVIEW

Significant contributions to the study of the banking system in Uzbekistan have been made by economists M. I. Iminov, Sh. Sh. Shodmonov, B. A. Begalov, M. M. Mukhammedov, K. N. Yusupov, and others. Their works examine the development of the banking sector, the role of commercial banks in the national economy, issues of financial stability, and the institutional foundations of banking regulation in Uzbekistan.

A substantial contribution to the theory of systemic risk and systemically important banks has been made by Markus Brunnermeier and Tobias Adrian, who developed the CoVaR methodology for measuring the contribution of individual banks to overall financial system risk. Their research demonstrated that the vulnerability of a banking institution should be assessed not only by its size, but also by its interconnectedness with other financial institutions and its potential to transmit shocks across the system. This approach became one of the methodological foundations for modern macroprudential regulation.

An important contribution was also made by Chen Zhou, who argued that the size of a bank alone should not be regarded as the main indicator of its systemic importance. According to his findings, even medium-sized banks may pose substantial systemic risk if they are highly interconnected with other institutions in the financial network. Zhou proposed several measures of systemic importance, including the Systemic Impact Index (SII), which allows regulators to assess the potential consequences of the failure of a specific bank for the entire banking system.

The network approach to systemic risk has been further developed in the works of Andrew Haldane and Robert May, who introduced the concept of “too connected to fail.” Their studies showed that systemic importance is determined not only by the scale of a bank’s operations, but also by the density of its interbank linkages and its central position within the financial network. In this regard, the collapse of a highly interconnected institution may generate stronger spillover effects than the failure of a larger but less connected bank.

RESEARCH METHODOLOGY

The study employs general scientific methods, including observation, synthesis and analysis, induction and deduction, SWOT analysis, and mathematical modelling.

ANALYSIS AND RESULTS

The Basel Committee on Banking Supervision has developed a methodology for assessing systemic importance based on five categories of indicators: bank size (total assets), interconnectedness with other financial institutions, substitutability of provided services, cross-border activity, and operational complexity [3]. Each category receives equal weight in the overall assessment, which is of fundamental importance: a bank may be classified as systemically important not only because of its absolute size, but also due to its high interconnectedness or the non-substitutability of its infrastructure functions, such as settlement, clearing, and custodial services. For this reason, the methodology of the Basel Committee on Banking Supervision is not limited to identifying the “largest” banks, but instead requires a multidimensional analysis [3].

With respect to the banking systems of individual countries, the Basel Committee on Banking Supervision has also developed a methodology for domestic systemically important banks (D-SIBs), adapted to the scale and characteristics of the national economy [4].

The Central Bank of the Republic of Uzbekistan has compiled a list of systemically important banks since 2018. The criteria include each bank’s share of the banking system’s aggregate assets, its share of interbank liabilities, the volume of retail deposits, and its significance for maintaining payment and settlement infrastructure [2].

Banks included in this list are required to comply with enhanced capital adequacy requirements, including a surcharge above the minimum capital adequacy ratio (CAR), and to prepare recovery plans.

The research identifies a specific feature of Uzbekistan’s banking sector: three of the five largest banks remain predominantly state-owned. As a result, the supervisory instruments developed to manage the risks of large private banks are being applied to institutions that benefit from substantial state support and recapitalisation capacity. Formally, these banks are recognised as systemically important; in practice, they also benefit from a strong level of state backing. This creates a distinctive regulatory challenge that deserves closer examination.

It is therefore necessary to consider the actual concentration structure of the banking sector of the Republic of Uzbekistan, since without understanding the scale of SIB dominance, any analysis of their influence on financial stability remains incomplete (Table 1).

Table 1. Systemically Important Banks of the Republic of Uzbekistan: Key Indicators (2025)

Bank	Share in total sector assets, % (2023)	Share in loan portfolio, % (2023)	Capital adequacy ratio (CAR), %	Ownership form
National Bank for Foreign Economic Activity of Uzbekistan	22.4	19.8	16.2	State
Uzpromstroybank	18.7	21.3	14.8	State
Agrobank	12.1	13.6	13.4	State
Asakabank	9.3	10.1	15.7	Mixed
Ipoteka-bank	7.8	8.4	14.1	Private
Total share of 5 SIBs	70.3	73.2	—	—

Source: compiled by the authors based on data from the Central Bank of the Republic of Uzbekistan [2] and banks’ financial statements [5]

Table 1 demonstrates a degree of concentration that is rarely observed among economies with a comparable level of development: five banks account for 70.3% of assets and 73.2% of the loan portfolio of the entire national banking system. By comparison, the corresponding figure in Kazakhstan is approximately 62%, while in Georgia it is around 55% [6]. Moreover, all five banks are state-owned, which further strengthens the systemic nature of this concentration.

The capital adequacy ratios of all five banks exceed the minimum threshold established by the Central Bank of the Republic of Uzbekistan (13%); however, the gap between the most and least capitalised bank amounts to 2.8 percentage points. In a stress scenario — for example, a sharp increase in non-performing loans in the construction or agro-industrial sectors — this difference becomes practically significant: banks with a smaller capital buffer may reach the regulatory minimum earlier and require additional recapitalisation measures.

Several mechanisms explain how systemically important banks influence financial stability, both in global practice and under the specific conditions of Uzbekistan.

The first mechanism is direct: the “too big to fail” (TBTF) effect. A bank holding 22% of system assets, if destabilised, can generate losses that spread through interbank obligations, temporary disruptions in payment infrastructure, and increased deposit withdrawals from other banks. Studies by George Akerlof and Paul Romer, as well as empirical research based on the 2008 financial crisis, confirmed that the larger the share of a systemically important bank in sector assets, the greater the implicit state support reflected in a lower cost of market funding [7]. In other words, market participants expect that the state will support such a bank if necessary, which allows it to borrow on more favourable terms and creates a competitive advantage over smaller private banks.

The second mechanism is the procyclicality of lending activity. Large state-owned banks in the Republic of Uzbekistan have traditionally served as instruments of state credit policy: they extend financing to priority sectors at preferential rates and provide concessional loans — under government programmes supporting housing construction and the agro-industrial sector.

During periods of economic growth, this may stimulate credit expansion above the market average; during periods of slowdown, however, it can increase the risk of accumulated non-performing loans that have not been fully filtered through market-based credit assessment procedures [8]. According to data from the Central Bank of the Republic of Uzbekistan, the share of non-performing loans (NPLs) in the portfolios of state-owned banks in 2022–2023 remained higher than that of private banks of comparable size — 5.4% versus 3.1% [2].

The third mechanism is information asymmetry regarding the actual quality of assets. State-owned systemically important banks have historically had greater flexibility in restructuring problem loans without immediately reclassifying them into lower-quality categories, partly because the supervisory approach toward state-owned banks implementing strategic policy objectives is often more accommodating than toward private institutions.

As a result, official NPL statistics may not fully reflect the actual scale of problem assets in SIB portfolios, and the financial stability of the banking system may appear stronger than it is in reality [9].

The fourth mechanism is the interbank contagion channel. Although Uzbekistan’s interbank market remains relatively limited compared to developed economies, small and medium-sized banks place a considerable share of their liquidity in instruments issued by large state-owned banks or maintain correspondent accounts with them. Any destabilisation of one of the five SIBs would therefore immediately affect the liquidity of dependent banks and, in the absence of a sufficiently developed emergency refinancing mechanism, could escalate into a broader liquidity shock affecting the entire system [10].

CONCLUSIONS AND RECOMMENDATIONS

Systemically important banks in the Republic of Uzbekistan influence the country’s financial stability in two interconnected directions. On the one hand, their predominantly state-owned nature supports short-term sector resilience: implicit state backing reduces the likelihood of depositor panic, while recapitalisation through public resources remains an available support instrument. On the other hand, this structure may also create long-term vulnerabilities, including the procyclicality of directed lending, weaker market discipline in risk management, and the possible underestimation of the actual scale of problem assets.

First, it is recommended that the methodology for identifying systemically important banks in the Republic of Uzbekistan be further refined to reflect the full range of criteria proposed by the Basel Committee on Banking Supervision, especially the interconnectedness indicator. The current methodology of the Central Bank of the Republic of Uzbekistan primarily emphasises bank size, while the substitutability of settlement and infrastructure functions remains less fully developed [2]. Including these criteria would allow for a more accurate assessment of the actual systemic risk associated with each bank.

Second, capital surcharges should be differentiated according to a scored assessment of systemic importance on a multi-criteria basis, rather than applying the same enhanced standard to all banks included in the list. Such an approach would create incentives for reducing systemic concentration: banks that lower their share of interbank liabilities or strengthen the substitutability of their services could receive regulatory relief.

Third, given the continuing privatisation programme for state-owned banks in the Republic of Uzbekistan, it is important to establish in advance a supervisory framework for systemically important banks that is independent of state ownership. As private, including foreign, investors increase their participation in the capital of these banks, implicit state support is likely to decline, while the role of market discipline will become stronger. The regulatory framework should therefore be prepared for this transition in advance, rather than adapting only after it occurs [4].

Fourth, it would be advisable for the Central Bank of the Republic of Uzbekistan to introduce the mandatory publication of stress-testing results for systemically important banks in a standardised format, similar to the practices of the European Central Bank and the Federal Reserve System. Public disclosure of such results would create an additional channel of market discipline and reduce information asymmetry regarding the true quality of state-owned bank assets, which currently remains one of the main sources of latent systemic vulnerability.

Thus, the financial stability of the economy of the Republic of Uzbekistan is significantly influenced by how effectively the regulator manages the risks concentrated in five major state-owned banks. The data presented in Table 1 clearly illustrate that 70% of assets and 73% of the loan portfolio are not simply indicators of dominance, but a structural characteristic that requires an appropriate supervisory response. As the banking sector continues to liberalise and attract private capital, this response should become more market-oriented in form and more rigorous in substance.

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