



German  
Economic  
Team

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**POLICY BRIEFING**  
**UZBEKISTAN**

# Banking Sector Monitor Uzbekistan

by Stanislav Dubko, Woldemar Walter, Robert Kirchner

# Executive summary

- » The Uzbek banking system has shown a remarkable level of resilience to the negative impacts of the COVID-19 pandemic and the Russia-Ukraine war
- » The number of banks has increased over the last years to 35 banks
- » The sector continues to be dominated by state-owned banks, which control 69% of the assets
- » Decreasing but still strong market concentration: Top 3 banks account for 42% of assets; 13 banks have a market share of less than 1%; foreign banks play a limited role
- » Government plans to privatise most of the state-owned banks until 2025 by selling state shares to strategic investors or through IPO. However, only 2 banks have been privatised during the last three years (since the adoption of the privatisation plan in May 2020); instability caused by the Russia-Ukraine war might postpone the privatisation
- » Directed lending has been drastically reduced in 2H2019 but still plays an important role in the Uzbek economy
- » Lending to the private sector increased strongly, reaching 42% of GDP
- » The NPL ratio increased sharply in 2021 due to repercussions of the COVID-19 pandemic but has been declining since to comfortable levels
- » Capitalisation and profitability of the sector are at moderate levels and increasing
- » High dollarisation remains an issue and poses risks for the banking sector

# Structure

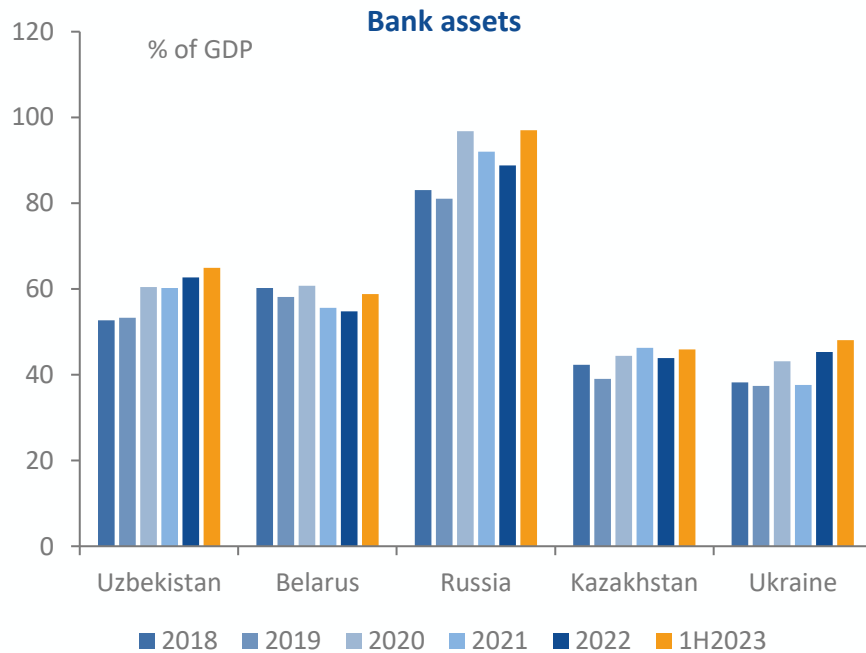
## Executive summary

1. Bank assets in a regional context
2. Number of banks and ownership
3. Market concentration
4. Lending to the private sector
5. Loan growth
6. Non-performing loans (NPLs)
7. Deposits
8. Interest rates
9. Capital adequacy and bank profits
10. External debt of banking sector

## Selected issues

11. Directed lending
12. Dollarisation
13. Main goals of banking reforms
14. Revised bank privatisation goals
15. Sovereign ratings and external debt

# 1. Bank assets in a regional context



Source: World Bank, Central Banks, own calculations

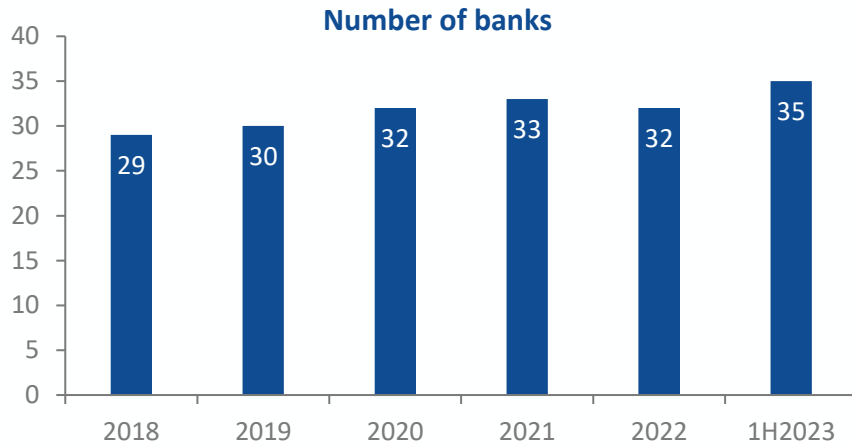
## Bank assets

- » Strong asset growth in UZB
  - 2018-6M2023 real growth of 10.8% p.a. yoy, despite negative effects of pandemic and RUS invasion of UKR
  - Increase from 52.7% of GDP (2018) to 64.9% of GDP (6M2023)
- » Asset growth supported strong Uzbek GDP growth

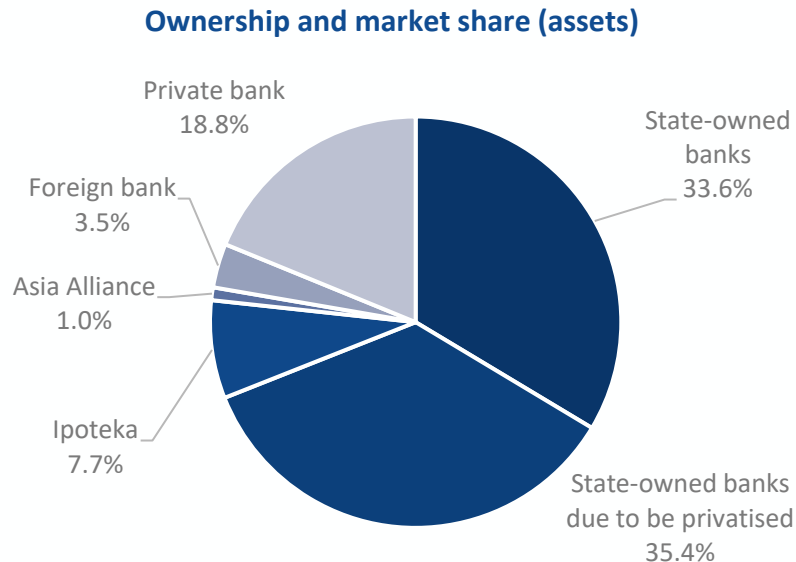
## Regional comparison

- » UZB banking system comparable in size to BLR, larger than KAZ and UKR, but much smaller than RUS
- » Compared to peers, higher growth dynamics in banking sector
- Level of bank assets relatively high and with strong growth compared to peers

## 2. Number of banks and ownership



Source: Central Bank of Uzbekistan, own calculations, end of period

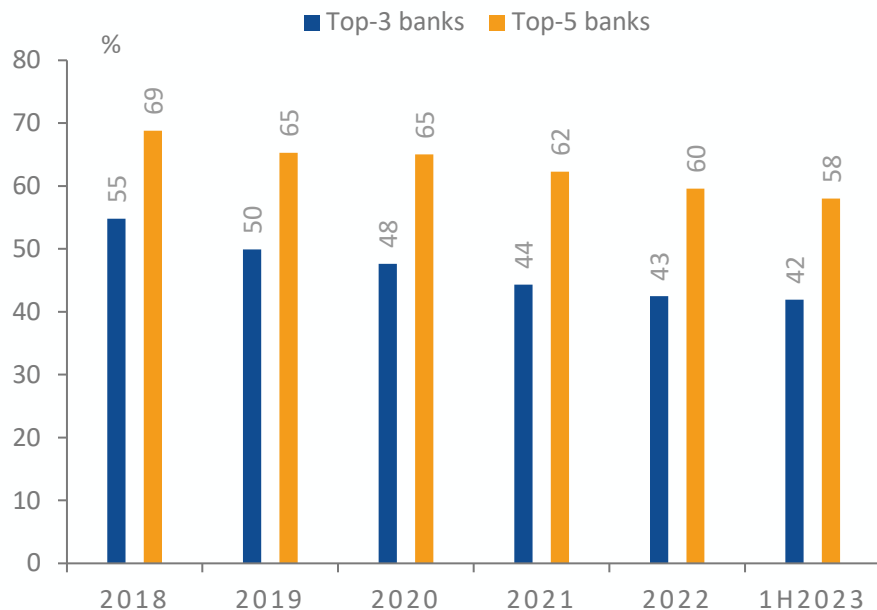


Source: Central Bank of Uzbekistan, as of 01/07/2023

- » Since 2018 increase of number of banks, from 29 to 35
- » Decrease in 2022 due to withdrawal of licenses of 2 private banks (Hi-Tech Bank and Turkistonbank)
- » Decreasing but still dominant share of state-owned banks; 69% of assets, 73% of loans and 52% of deposits
- » So far, two banks (Asia Alliance and Ipoteka) have been privatised since the state declared the privatisation program in May 2020
- » According to the new Strategy “Uzbekistan-2030”, all state-owned banks, except 3 state-owned policy banks, should be privatised till 2030.
- » IFI’s might play an important role in privatisation process
- » **Dominance of state-owned banks likely to decrease gradually, provided privatisation plans are successful**

# 3. Market concentration

Share of top 3 and top 5 banks (assets)



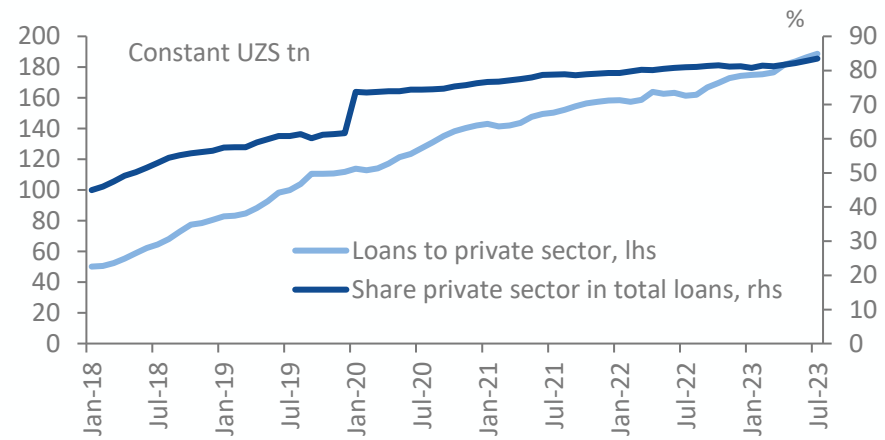
Source: Central Bank of Uzbekistan, own calculations, end of period

- » NBU (National Bank for Foreign Economic Activity of Uzbekistan) is the biggest bank
- » Top 3 banks are state-owned. Only 1 private bank is among Top 5 banks.
- » Still strong but decreasing concentration of bank assets among top 3 Banks. Main factors:
  - (i) decrease of share of NBU from 26% to 20% between 2018 and end of 1H2023
  - (ii) decrease of size of UzSQB and Asaka from 14% each to 12% and 8% respectively due to the transfer of some largest loans to UFRD\*
- » 13 banks with market share below 1%
- Concentration likely to change in future due to privatisation and liberalisation, which should stimulate competition
- Some small banks may leave the market

\* Uzbekistan Fund for Reconstruction and Development

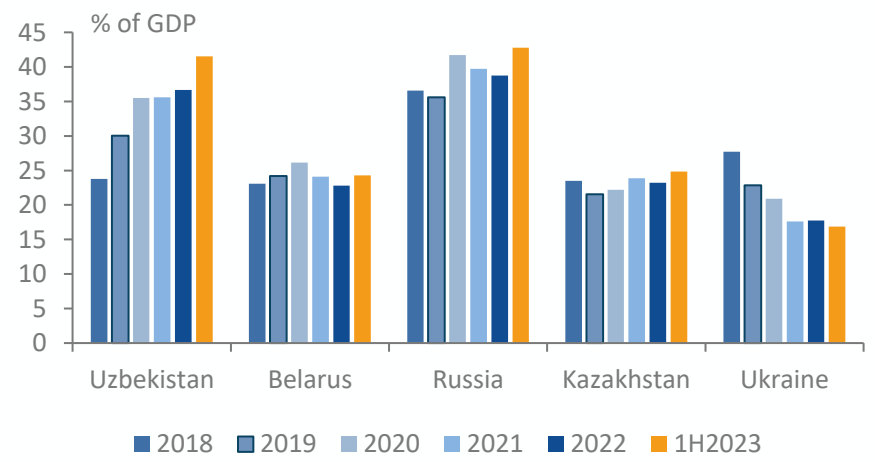
# 4. Lending to the private sector

Loans to private sector



Source: IMF IFS, CBU, FX loans at corresponding exchange rate; Note: private sector if over 50% of shares in private ownership

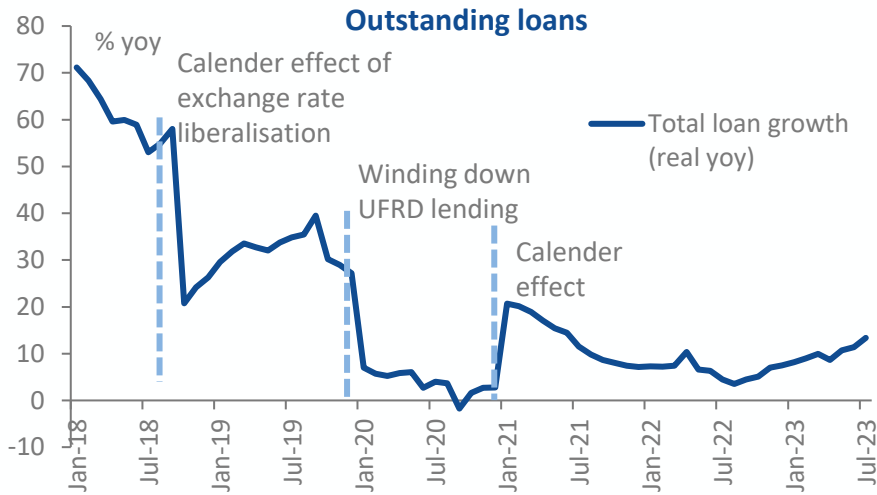
Loans to private sector in international comparison



Source: Word Bank, IMF, own calculations

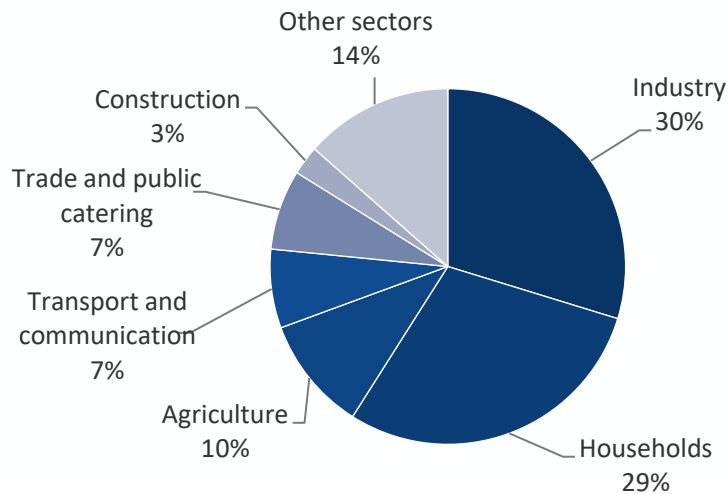
- » Lending to private sector difficult to assess due to data limitations and no formal definition of SOEs
- » Available IMF data most likely counts companies as SOEs if they are controlled by the state, thus have a majority stake by the government of over 50%
- » Results
  - Lending to private sector increased by ca. 29% p.a. between 1H2018 and 1H2023 in real terms
  - Share in total loans increased at the same time from 53% to 84%
  - Share in GDP mirrors strong growth
  - Loans to private sector as share in GDP almost doubled: from 24% in 2018 to 42% in 1H2023
  - UZB in peer group now reached the level of RUS, the historical leader within the group
- Available data indicate remarkable growth of lending to private sector in recent years and illustrate the transformation of the economy

# 5. Loan growth



Source: IMF, CBU, own calc., FX loans at corresponding exchange rate

## Outstanding loans by recipients, as of 1H2023



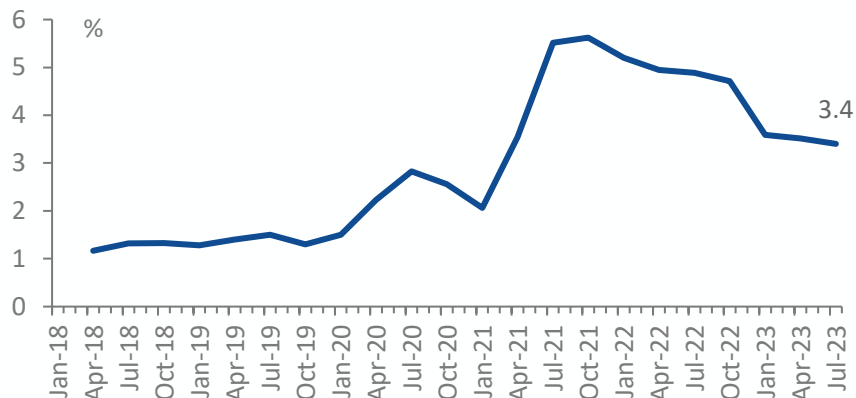
Source: World Bank, IMF, own calculations

- » Bank lending increased strongly by 16% p.a. on average between 1H2018 and 1H2023 in real terms
- » Several breaks in time series explainable by
  - Exchange rate liberalisation (in 2H2017) and subsequent depreciation
  - Dec-19: winding down of UFRD lending through banks and calendar effect in Dec-20
- » No strong effect of pandemic or war in Ukraine on loan growth
- » Most lending goes to industry
- » Household lending dynamically growing due to the boost in mortgage and car loans (as of end of 1H2023, 20% of all bank loans outstanding)
- Loan growth to remain dynamic in 2023
- Further growing role of households in lending in coming years



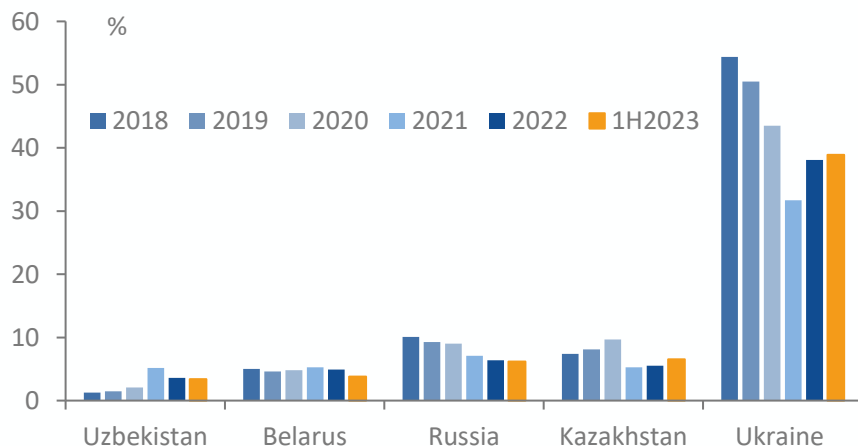
## 6. Non-performing loans (NPL)

NPLs as share of total loans



Source: Central Bank of Uzbekistan, end of period

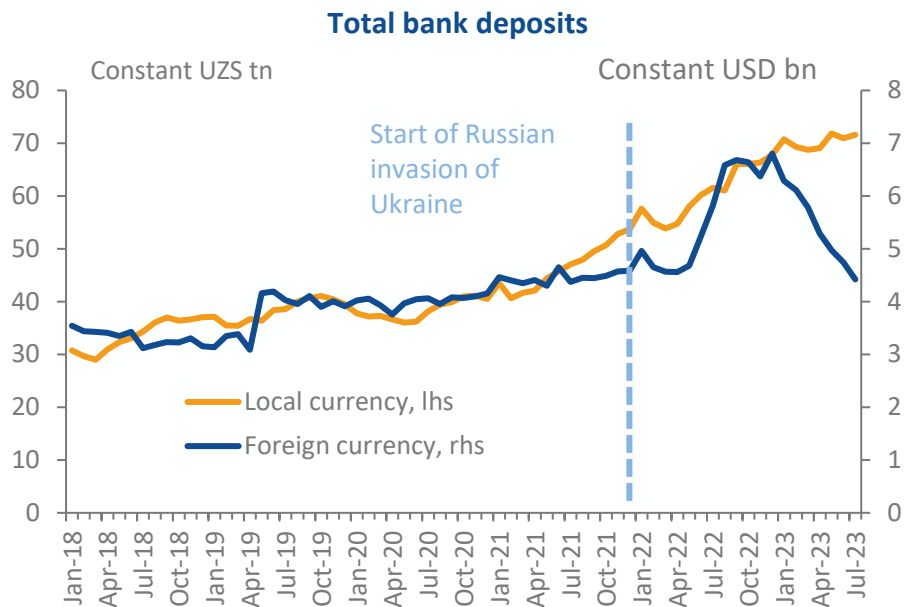
NPLs to total gross loans



Source: World Bank, IMF, own calculations

- » Significant increase of NPLs in March-July 2021 prompted by negative pandemic impact culminating at 5.6% in October 2021
- » NPL ratio has been decreasing since October 2021, but higher than before pandemic
- » In regional comparison, current NPL ratio lower than in peer group
- Decreasing NPL ratio after surge due to negative pandemic impact
- Still higher than before pandemic, but low level in regional peer comparison

# 7. Deposits



Source: Central Bank of Uzbekistan, own calculations,

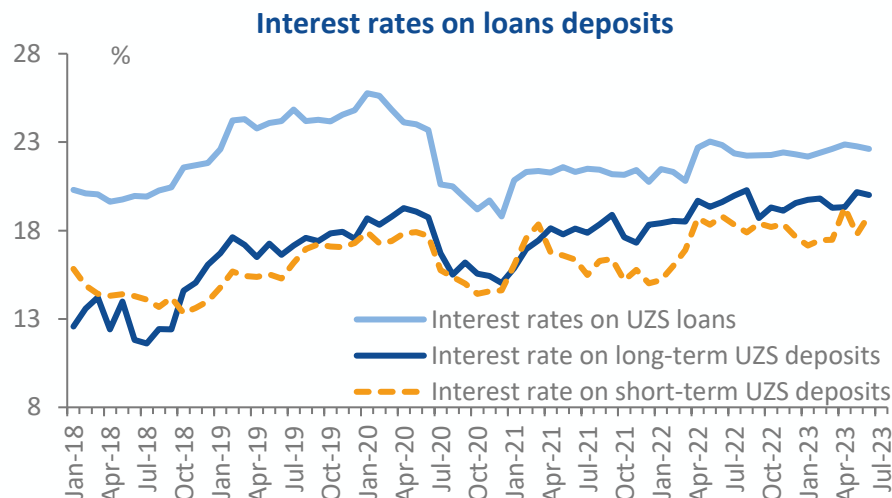
- » Steady growth of deposits in local currency by around 15% (2018-1H2023)
- » Growth of FX deposits lower over the same time period, much volatility since May 2022 can be explained by

Growth: After the Russian invasion of Ukraine, more than 60,000 non-residents opened accounts in Uzbek banks

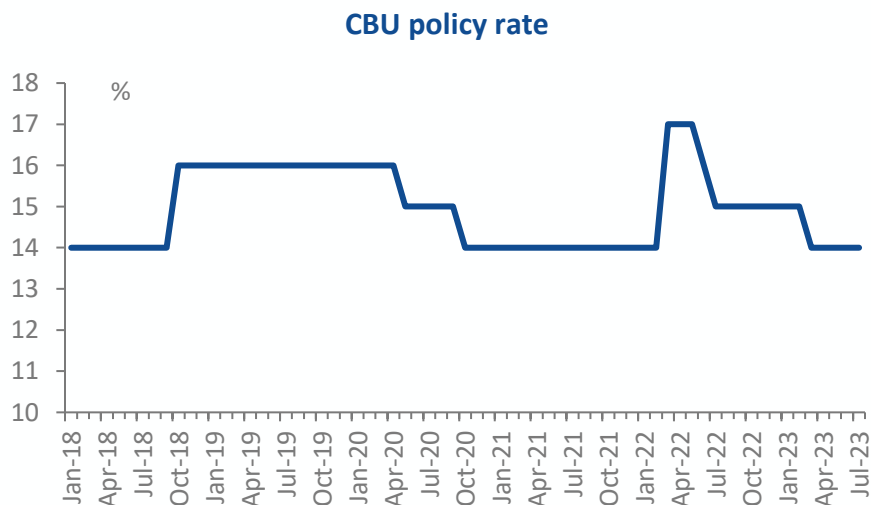
Decrease: Most of the deposits likely was withdrawn from Uzbekistan in 2023

- Deposits grow slower than loans
- Volatility for FX deposits connected to Russian invasion of Ukraine

## 8. Interest rates



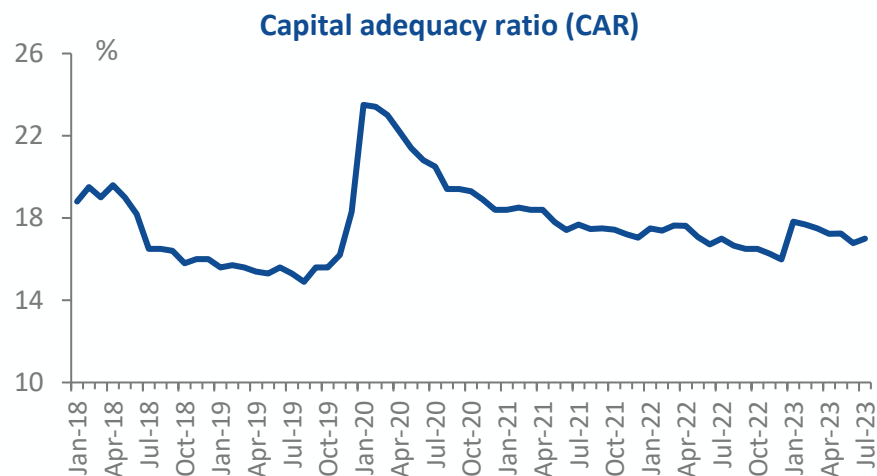
Source: Central Bank of Uzbekistan



Source: Central Bank of Uzbekistan

- » UZS loans
  - Increase of interest rates between 2H2018 and beginning of 2020
  - Strong decline in 2020 due to pandemic
  - Steady growth from 2022 onwards
- » UZS deposits: similar development but overall stronger growth
- » Ratio of net interest income to total liabilities narrowed to 5.6 pp; decreasing the profitability of the banking sector
- » Policy rate increased from 14% to 17% p.a. in March 2022 to mitigate the effects of the turmoil on Russian financial markets
- » Since then, policy rate lowered step-by-step back to 14% (in March 2023)
- Decrease of the policy rate in 2H2022 did not translate to decrease of interest rates so far
- Lower net interest margin burdens banks' profitability

# 9. Capital adequacy and bank profits

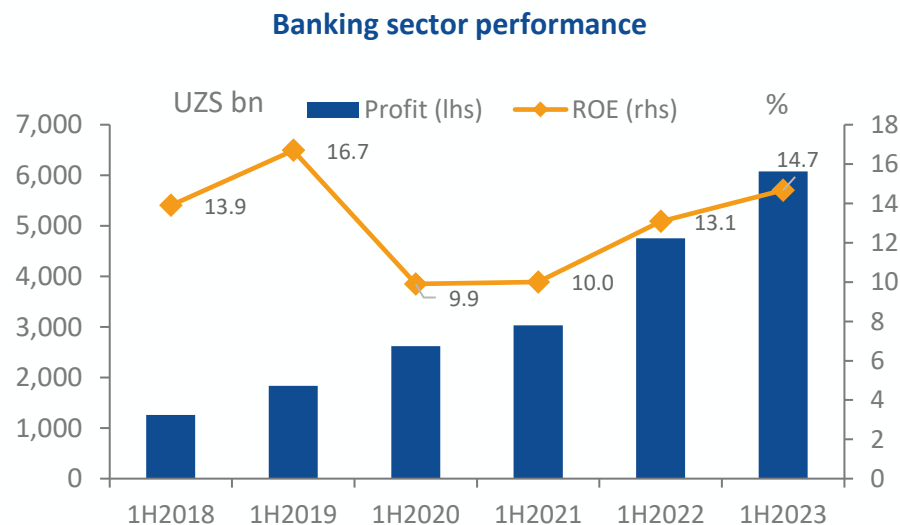


Source: Central Bank of Uzbekistan

## Capital adequacy ratio (CAR)

- » With 17.0% CAR at a satisfactory level (1 July 23)
- » Since beginning of 2020: decline by 6.5 pp as a result of strong nominal asset growth (111.4%) without corresponding equity increase (68.7%)
- » However, still comfortable capital buffers (CBU's prudential norm for CAR is 13.0%)

## Banking sector profit

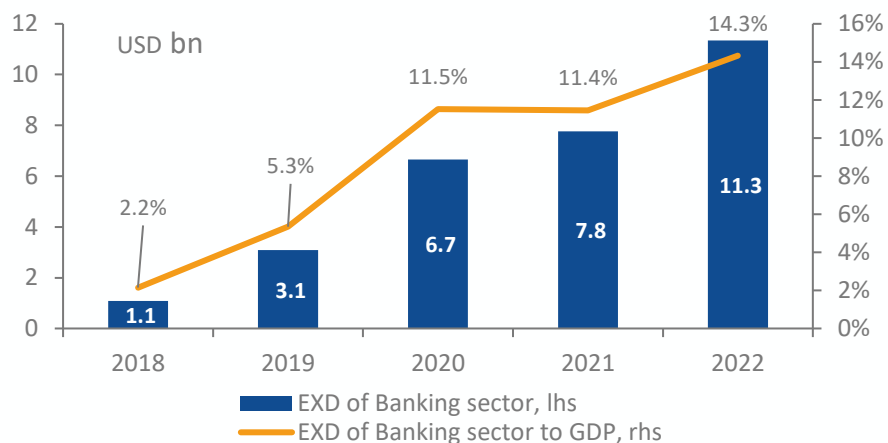


Source: Central Bank of Uzbekistan

- » Increased in 2023 comparing to 2022
- » Profitability (ROE) less than in 2019 (ca. 16.7% vs 14.7%) although still at good level
- » Banks managed to reduce NPLs (from 5.6 in 2021 to 3.4 in 2023) which enabled the banks to increase profitability despite lower interest margin
- ROE currently on the rise; CAR at a satisfactory level

# 10. External debt of banking sector

External debt (EXD) of the banking sector



Source: Ministry of Economy and Finance of Uzbekistan, CBU; Note: including publicly guaranteed debt and deposits from non-residents

Eurobonds of Uzbek Banks

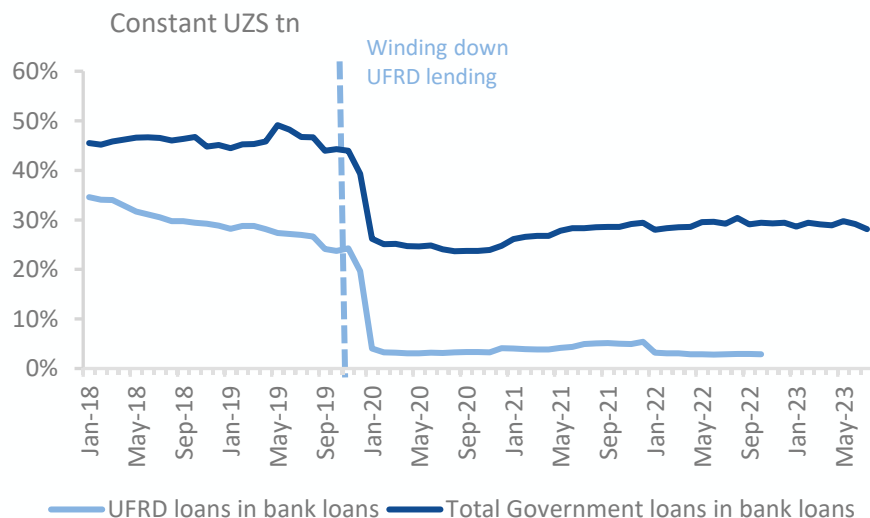
Bank	Value	Date	Maturity	Issuance Yield	Current Yield
Uzpromstroybank	USD 300 m	Dec 2019	5 years	5.75%	11.33%
NBU	USD 300 m	Oct 2020	5 years	4.85%	7.63%
Ipoteka Bank	USD 300 m	Nov 2020	5 years	5.50%	9.79%
Ipoteka Bank	UZS 785 bn (~ \$75 m)	Apr 2021	3 years	16.00%	n/a

Source: Ministry of Economy and Finance of Uzbekistan, CBU, [rusbonds.ru](http://rusbonds.ru); current yield as of 25 September 2023.

- » External debt of banking sector rapidly grew since 2018 reaching 14.3% of GDP by end 2022
- » Since end of 2019 banks raising capital in foreign capital markets
  - In 2019-2021 three banks conducted four Eurobond issues for USD 975 m
  - in 2021-2022 banks attracted credit lines from different IFIs (most active creditors are EBRD, ADB, AFD and KfW)
- » Strong growth of external debt in 2022 was mainly due to a strong inflow of deposits from Russia after the invasion of Ukraine
- External debt of banks already high compared to regional peers

# 11. Directed lending

Government loans in total bank loans (%)

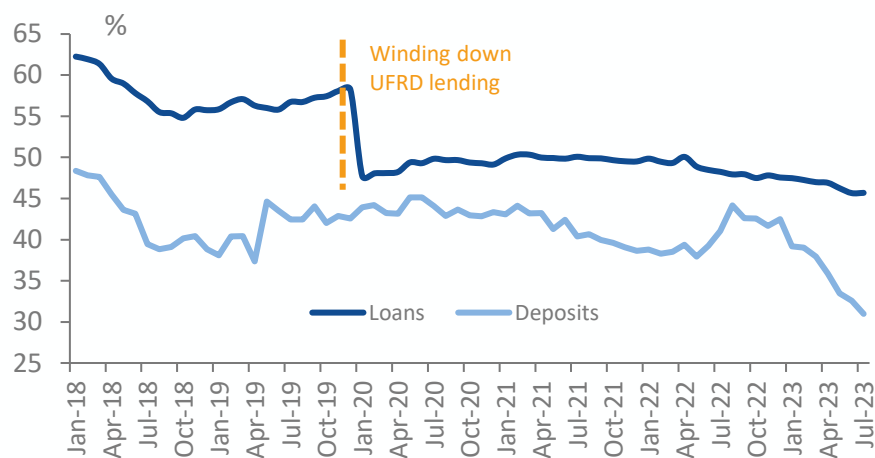


Source: Central Bank of Uzbekistan

- » Until Mid-2019: UFRD used to provide loans to banks, which in turn channeled loans to SOEs and investment projects
- » In 2H19, the government started to wind down UFRD loans from USD 5.9 bn by end-2018 to USD 0.9 bn by end-2019 and keep it at this level until October 2022 (last reported period)
- » This resulted in decrease of the share of UFRD lending from over 30% in at the beginning of 2018 to less than 5% in 2022
- » Since October 2022, CBU has not published information on loans provided through UFRD
- » According to CBU, UFRD loans are no longer channeled through the banking system
- » However, government plans to further provide some lending from UFRD to economy
- **Government aims to change and commercialise business models of banks by reducing directed lending**

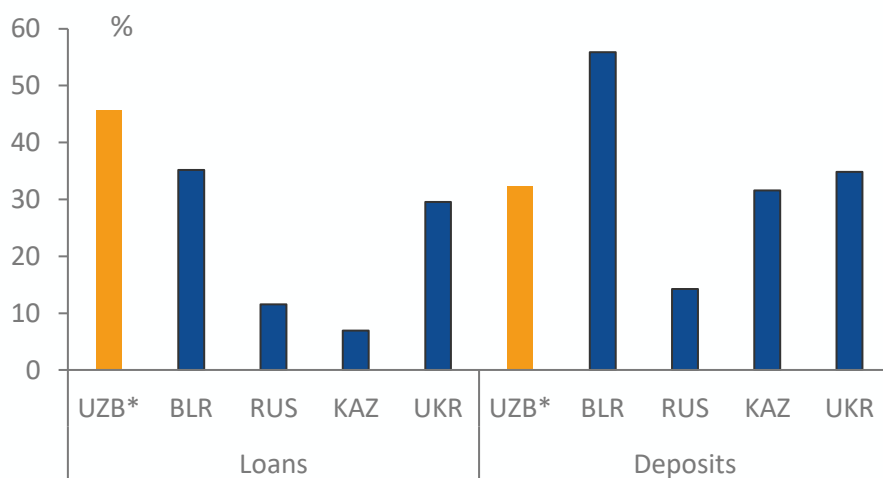
# 12. Dollarisation

## Dollarisation of outstanding loans and deposits



Source: Central Bank of Uzbekistan

## Dollarisation of outstanding loans and deposits



Source: Central Banks, own calculations

\* Data for UZB as of 1<sup>st</sup> June 2023, for other countries as of 1<sup>st</sup> July 2023

- » Dollarisation has decreased in 2023, but remains high, especially on the loans side
  - As of June 2023, FX deposits at 33% of total deposits; FX loans at 46% of total loans
- » Transfer of directed loans (mainly in FX) from banks to UFRD lowered dollarisation of loans from 58% in Dec 2019 to 48% in Jan 2020
- » The pandemic impact has not changed the currency structure of loans and deposits
- » Deposit inflow by non-residents to Uzbek banks after the Russian invasion of Ukraine increased dollarisation of deposits temporarily up to 44% as of Aug 2022

### Regional comparison

- » Loan side: significantly higher than peers in group
- » Deposit side: equal to KAZ and UKR, higher than RUS, lower than BLR
- High dollarisation of banking system remains a challenge

# 13. Main goals of banking reforms

## Goals of the roadmap 2020-2025

Indicators	2019 Fact	June 2023 Fact	2025 Goal
Share of assets of private banks	15%	31%	> 60%
Share of private sector in total banks' liabilities	28%	no info	> 70%
Attracted strategic foreign investors into banking sector	0	1	3
Share of deposits in liabilities of banks	41%	41%	50-60%
Share of foreign currency in total liabilities	58%	52%	40-45%
Bank assets to GDP ratio	53%	63%	> 55%
Bank deposits to GDP ratio	18%	23%	25-27%

Source: Presidential Decree 5992 from 12/05/2020, CBU

- » Government committed to transform and develop the sector by strengthening private sector in banking system, enhancing quality of banks balance sheets and decreasing foreign currency share
- Moderate progress achieved so far, unlikely to reach some goals in 2 yrs, e.g.
  - Doubling the share of assets of private banks from 31% to over 60%
  - Increasing by 25-50% share of deposits in liabilities of banks
- » Reaching the target of de-dollarisation of total liabilities is more likely
- » So far only 2 banks (Asia Alliance Bank and Ipoteka Bank) fully privatised
- » Timeline for privatisation of other banks extended
- » **Very ambitious reform programme, some goals will likely not be reached until 2025**



# 14. Revised bank privatisation goals

Banks	Market share	New goals by Presidential Decree No. PP-253 dated 31/07/2023	Comments
NBU	20.2	IPO deadline extended from 01.07.2023 to 01.01.2025	Bank to remain majority government owned
UzPSB	11.5	Privatisation by the end 2024	State share to be reduced to 50%
Asaka	8.4	Privatisation by the end 2025	May become fully private
Ipoteka	7.7	Privatised (2023)	Fully private
Agro	10.2	IPO deadline extended from 01.07.2023 to 01.01.2025	Bank to remain majority government owned
People's	6.0	IPO deadline extended from 01.07.2023 to 01.01.2025	May become fully private
QQB	4.3	IPO deadline extended from 01.07.2023 to 01.03.2024	May become fully private
Microcredit	3.1	IPO deadline extended from 01.07.2023 to 01.01.2025	Bank to remain majority government owned
Aloqa	2.9	IPO deadline extended from 01.07.2023 to 01.01.2025	May become fully private
Turon	2.3	Not defined	
Poytaxt	0.0	Not defined	
Uzagroexport	0.0	Not defined	

Source: Presidential Decrees No.5992 dated 12/05/2020, No. PP-168 dated 18/02/2022, No. PP-253 dated 31/07/2023 CBU

# 15. Sovereign ratings and external debt

## Sovereign ratings

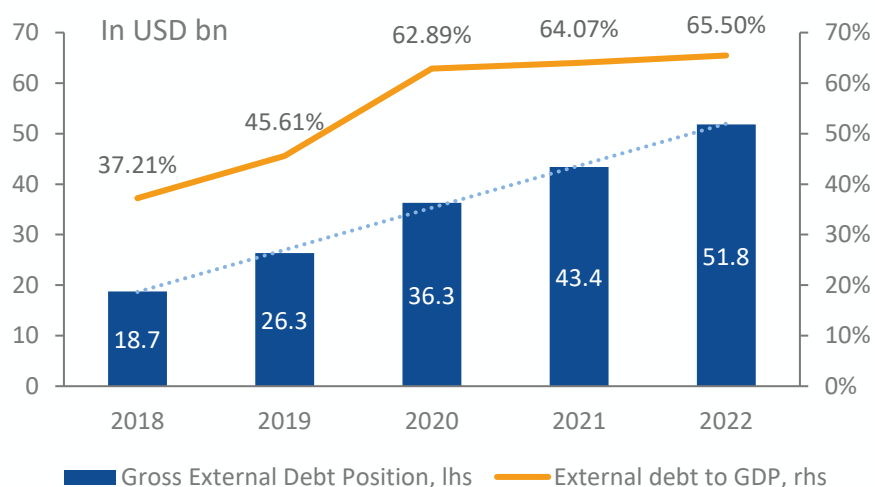
Agency	Rating	Outlook	Date
S&P	BB-	Stable	2023-06-02
Moody's	Ba3	Stable	2023-01-20
Fitch	BB-	Stable	2023-03-07

Source: Fitch, Moody's, S&P

## Sovereign ratings

- » Moody's upgraded rating of Uzbekistan in January 2023 from B1 Positive to Ba3 with Stable outlook - the only change in ratings since 2018
- » Uzbekistan's sovereign ratings similar to Serbia, Bangladesh, Cyprus; three notches lower than Kazakhstan, but two notches above Tajikistan and Kyrgyzstan
- Ratings and yields show relative resilience of Uzbekistan to impacts of the pandemic and Russia-Ukraine war

## External debt (%)



Source: former Ministry of Finance of Uzbekistan (currently Ministry of Economy and Finance)

## External debt

- » Uzbekistan's total external debt as of January 1, 2023 stands at USD 51.8 bn (65.5% of GDP in 2022)
- » Increase by 176% since 2018
- » The growth of the national (state) debt slowed down in 2022 (12% increase yoy)
- » At the same time, the debt of the non-state sector (incl. commercial banks) started to grow at an accelerated rate (25% increase yoy)
- Strong increase of external debt but internationally still moderate

# About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus\*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

*\*Advisory activities in Belarus are currently suspended.*

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