

Historical Stages of Formation and Development of Modern Banking System in Uzbekistan

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ABSTRACT

This paper investigates major points of the HISTORICAL STAGES OF FORMATION AND DEVELOPMENT OF MODERN BANKING SYSTEM IN UZBEKISTAN. On this case, research has been pinpointed on different analyses of the modern banking system in the Republic of Uzbekistan. In conclusion, research has focused on outcomes and shortcomings as the whole.

KEYWORDS: Formation, development, modern banking, Uzbekistan, research

INTRODUCTION

The formation of the first banks on the territory of Uzbekistan dates back to the second half of the XIX century. As a result of the conquest of Central Asia by Tsarist Russia, the Russian capital began to enter, and on May 10, 1875 The Tashkent branch of the First bank – the State Bank of Russia began its activity [1]. This date can be considered as the date of establishment of the system associated with the bank and this financial institution in Uzbekistan.

For many years, The Tashkent branch of the State Bank of Russia was considered the only bank in the Turkestan region (up to the 90-ies of the XIX century), which controlled the budget funds of the colonial administration and provided loans for the development of trade. Its opening contributed to the penetration of the Russian commercial and industrial capital into Central Asia, increasing the interest of Russian industrialists in Central Asia as a cotton-growing region.

Later, branches of commercial banks began to develop widely in the country. In 1893, the branches of the "Volkko-Kamsky Bank" and the "Russian-Chinese bank" were opened in 1903 year, it was reorganized in 1910 year together with the "northern bank" as the "Russian-Asian bank". In the same year, The Tashkent branch of the Azov-don commercial bank was opened. In general, on the eve of the revolution in 1917 year in Central Asia there were about 50 branches of the Russian State Bank and commercial banks. There were bank branches in 12 cities of Central Asia, including Bukhara and Khiva. Until 1915, the largest number of banks had branches in Bukhara - 8 units, Samarkand - 8 units, Kokand - 8 units, Andijan, Namangan and Tashkent-three, Ashgabat and Marv-two [2].

Initially, private banks, which opened their branches in Central Asia, were only engaged in deposit and accounting and credit operations, but as the cotton-growing and related production sectors developed, banks began to gradually reduce the number of ordinary accounting operations and lend money to the commercial industrial operations of the local bourgeoisie. In addition, since the 1910-ies, banks began to engage in independent trading. To this end, they

established special warehouses for goods in their branches, began to rent cotton cleaning plants, and also obtained monopoly rights in the sale of cotton, fur of Karakul, cocoons and other raw materials, putting a loan to local entrepreneurs.

In Russia, and then in Turkestan, the development of financial capital led to an increase in the inflow of foreign capital into the country. Since 1890-ies, foreign capital (German, French, English, Belgian, American, etc.) entered the banking institutions of Russia, various industries and trade. The finances of foreign financiers and industrialists the Russian Empire entered many branches of the national economy and remote countries. They even penetrate into the Central Asian economy – a region whose activities are prohibited. One of the largest banks operating in Central Asia – the Russian-Asian bank was founded in 1910 year on the basis of the former Russian-Chinese bank, which was founded in 1906 year and is closely connected with the American financial capital. Its departments were opened in such cities as Tashkent, Samarkand, Kokan, Andijan, Margilan, Namangan, Bukhara, new Urgench, Ashgabat, Marv. Almost all of these branches were in control of the activities of enterprises associated with the cultivation of cotton [3].

In general, before the establishment of Soviet power in Turkistan, a number of state and commercial banks of the Empire were established. At present, at the end of the XIX – beginning of the XX century, the basis of the modern market economy was formed in the country and began to develop rapidly. But the revolutionary processes of 1917 year led to the abandonment of the path of socio-economic development based on market principles, at the same time, the transition to a centralized and administratively-ordered planned economic system. And this caused radical changes not only in the socio-economic life of the imperial center, but also in the activity of such remote countries as Uzbekistan, which are considered dependent on it, in particular in the banking sector. These changes, along with market Relations, also put an end to the banking system based on the principle of freedom, have created a "monobank" [4] system that serves the planned economic system.

On December 14, 1917, the decree of the All-Russian Central Executive Branch "on the nasionalization of banks" was signed and, based on it, the banking business was transformed into a state monopoly [5]. Under this Decree, all existing banks in the country were united under the State Bank. On October 12, 1921, the Central Executive Power adopted a decision "on the establishment of state banks [6]. According to this normative act, first the State Bank of the RSFSR was established, and then, after the establishment of the Soviet Union, on its basis, the State Bank of the USSR was

established in 1923 year [7]. Only from 1923 year for 1925 year the Departments of the State Bank of the USSR reached from 251 to 448 units [8]. In this way, the country introduced a full-fledged monobank system, which operated until 1987 year.

The model of economic development of the Soviet Union from the very first period of its formation began to show the fact that it was built in accordance with the requirements of innovative development, as well as the low efficiency of the centralized mechanism of economic management. In other words, "the experience that began with the policy of military communism has led to the fact that the system of Economic Conduct, which has been decided from year to year, has led to the decision-making of the central bodies of unrestricted hukmiga-based non-violent methods of governance, in its influence the accumulation of contradictions in the national economy and gradually" [9].

The escalation of crisis situations in the economy led to the fact that the Soviet banking system also faced problems and contradictions in the performance of its functions. The Soviet credit system lost the potential to stimulate expanded reproduction and rational use of the country's production capacities and reserves. The Bank has become a mass phenomenon – an organization that regularly allocates loans to compensate for the losses of enterprises that do not fulfill the plans. As a result, by the 1980s, the discipline of payment and circulation of money in the country's national economy deteriorated sharply.

The banking system of the USSR (including in the republics) showed that they were not able to promote scientific and technical development, modernize production, transfer it to the rails of intensive development, take into account the full cost of advanced enterprises and support the direction of self-financing. As a result, along with the liberalization of economic life, the issue of reforming the existing banking system became urgent.

As in all spheres of the national economy, reforms were initiated in the banking system. In particular, the decision of the Central Bank of the Republic of Azerbaijan and the Council of Ministers of the USSR on July 17, 1987 "on improving the banking system in the country and its impact on increasing economic efficiency" gave impetus to the process of liberalization in the banking sector and transition from the monobank system to two-tier [10].

With this decision, it is planned to eliminate the problems and conflicts that have accumulated over the years in the field. To this end, structural and functional changes were made in the banking system, a new monetary policy was announced, a number of new forms and methods of banking activity were approved, and qualitative updating of technical equipment of banking institutions was envisaged. It was decided to reorganize the existing banks and form new specialized banks, a new system of banks was created, the main directions and principles of their activities were determined.

Since 1987, as in the whole country (in the USSR), along with cooperatives (small enterprises), private and joint-stock banks began to open in Uzbekistan. In particular, before independence, in 19999991, "Silk Road bank", "Namangan

bank" and a number of other banks began their activities in the Republic of Uzbekistan. For example, on April 23, 1990, the Silk Road Joint-Stock-Innovation Commercial Bank was established, which on June 21, 1990 received a license from the State Bank of the USSR to conduct banking operations [11]. Since 1991 (on the eve of independence) "Andijan bank" has started its activity in the market of banking services of the Republic of Uzbekistan, and later changed to "Partnerbank" aktsiyatadorlik-Commercial Bank [12].

Of course, the process of transition from the monobank system to the two-tier system was not easy, the lack of experience and qualifications was clearly noticeable. Banks, as before, had been linked to norentabel customers, their economic support mechanism had not been developed by the state, commercial banks had been forced to carry out these customer service and damaging banking operations for themselves. Nevertheless, in the banking system, the first steps were taken towards a market economy. But the real conditions for the transition to a new system, in fact, came into existence after 1991 year.

After the Republic of Uzbekistan gained independence on September 1, 1991, a new model of the national banking system was laid. Work was carried out on the abolition of the so-called "Monobank" system and the formation of a new banking system that corresponds to the conditions of the market economy. Laws on banks and banking activities have been developed. This has created conditions for sustainable development of banks and competition in the banking system. For the last thirty years, the banks of Uzbekistan have had to take an evolutionary and at the same time complex path of development in order to become a significant structure affecting the national economy.

In addition, the sovereignty made it possible for the banking system of the Republic of Uzbekistan to become a member of international influential financial organizations and establish comprehensive and mutually beneficial relations with them. In particular, Uzbekistan was admitted to the World Bank on September 21, 1992.

The first period of development of the banking system-1991-1993 years. Although the adoption of normative documents on the sphere coincided with the eve of independence (the law of the Republic of Uzbekistan "on banks and banking activities") [13], it did not lose its power in the conditions of sovereignty, but was improved. It is noted in this law that the composition of the two-level banking system and the imposition of new tasks on the Central Bank of the country. The tasks of regulating money circulation, the system of commercial banks and the formation of a payment system were assigned to the responsibility of the banking system of Uzbekistan. Financing of various sectors of the economy should have been carried out by specialized commercial banks, which are now established, operating on the basis of modern principles and requirements.

In 1994 year, the reforms in the banking system continued the second period of reforms in the industry began and it continued until 2003 year. Since July 1, 1994, the introduction of the national currency – sum into circulation has played an important role in the formation of an independent banking system, in general, the national economy. This meant that the central bank was completely

independent in its activities, which in the future could contribute to the effective organization of the regulation of the national monetary system through market instruments. Since that time, the activities of the central bank on maintaining the pulkredit policy, regulating the work on the Currency, managing the banking activities and subsequently creating an effective payment system were aimed at ensuring the stability of the national currency in full.

The mid-1990s is characterized by the fact that there is a period of improvement of banking legislation. In these years, two main documents on the banking system were adopted – the laws of the Republic of Uzbekistan "on the Central Bank of the Republic of Uzbekistan" in 1995 and "on banks and banking activities" in 1996. It is worth noting that the experience of countries with a developed financial system in their development is taken into account. These laws, as well as the law "on protection of the rights of Joint-Stock Companies and shareholders" created favorable legal conditions for the organization of non-resident banks in the form of private and joint-stock trading [14].

During this period, it is necessary to distinguish two factors that have had a special impact on the development of the banking system. Firstly, as a result of the reforms carried out, the Central Bank of the Republic of Uzbekistan became a full-fledged body of monetary management and banking supervision in 1996. Second, the law of the Republic of Uzbekistan "on banks and banking activities" has determined the legal basis of the activity of the second – level banking system-commercial banks. In it, the printing house was strengthened to form commercial banks on the basis of diversification of bank assets and attraction of foreign capital. During this period, the processes of formation of the Central Bank of the Republic of Uzbekistan as the managing and controlling body of the banking sector continued. The legislative base on the banking system has been qualitatively updated and coordinated with international banking practice.

In 1997, one of the strategic directions of reforms was to stimulate the flow of private capital in the banking sector. This process intensified in 1997 after the publication of the decree of the president of the Republic of Uzbekistan "on encouraging the establishment of private commercial banks". It provided for the provision of benefits for opening banks with a share of not less than 50 percent of individuals [15].

During this period, necessary measures were taken to operate in accordance with the Basel recommendations of the banks of the Republic. Following the recommendations of the Basel Committee on Banking Supervision and international practice, normative documents were developed that regulate the activities of commercial banks within the framework of International Financial Reporting Standards. In order to ensure the financial stability of commercial banks, Bunda used the principles of identifying the problems existing in their balance sheet in advance, as well as taking warning measures before the bank's liquidity decline and Capital end.

At the same time, in the second half of the 1990-ies, the mining system ceased to work due to the fact that the country's economy underwent serious tests. The reason is that the cotton crisis, which occurred in 1996 year, caused a

decrease in the world prices set for this product and led to a 15 percent reduction in revenues from cotton production. On top of this, a relatively low yield of cotton was obtained in 1998-1999 and in 1995-1999 its exposure decreased by 25 percent. The measures carried out by the country's leadership in response to this in the form of promoting the development of import-substituting production and maintaining foreign exchange reserves were evaluated in different ways by experts. According to some considerations, protectionism (the economic policy of a state aimed at protecting its economy from foreign competition) and the policy of limiting the currency negatively affected the liberalization of foreign exchange and trade procedures, as well as slowing the growth rates of small business and private entrepreneurship. This led to almost half the reduction in employment in small business. The slow pace of development of small scale business is attributed to the investment activity in which financial flows serve in favor of the public sector, in particular redistribution, in favor of some sectors and productions [16].

Taking this into account, at the end of this period, the leadership of the country drew attention to the liberalization of foreign exchange policy in order to reduce the impact of the negative circumstances that are taking place in the economy. This condition was mainly observed at a later stage.

2003-2016 was the next stage, during which Uzbekistan achieved a number of achievements in the strengthening of the banking system. The banking system has strategic tasks that determine the prospects for its development. The first of the tasks is to increase the financial stability of banks and increase the scope of financial services in the domestic market, while the second is to ensure the activity of banks of Uzbekistan in the international capital market.

During this period, the system of mortgage lending began to develop. This resource, which provides for social protection of all layers of the population, especially young people, was strengthened by the laws of the Republic of Uzbekistan "on consumer credit" and "on mortgage". The law of the Republic of Uzbekistan "on consumer credit" is significant with the aim of protecting the rights and interests of consumers. This law has further facilitated a significant increase in the volume of consumer lending in banks to improve the living conditions and the opportunities of the population [17].

The factors associated with the continuation of the liberalization of the foreign exchange market and the creation of the necessary conditions for the provision of sum deposits for current international operations also had a direct impact on the activities of banks. Since October 15, 2003, chunanchi accepted the obligation under Article VIII of the agreement of the International Monetary Fund of the Republic of Uzbekistan. As a result, enterprises were partially able to carry out mining on current operations [18]. As a result of the liberalization of the foreign exchange market, the official rate was depreciated three times, the black exchange rate of the foreign exchange market, which appeared in the middle of 1990, decreased in 2004-2008 years. At the same time, in these years we have achieved a high rate of development of the country's economy. Exports increased fourfold. In addition, it simplified the registration of enterprises and their work with banks [19].

In the aftermath of the global financial and economic crisis in 2008, the leadership of the country, which, without attracting foreign funds, practically relied on its own resources, began to introduce restrictions on the foreign exchange market again. As these measures were implemented in a limited way, local and foreign entrepreneurs using the national currency mining encountered a number of problems in carrying out their activities. At the same time, administrative barriers, limiting competition did not allow the development of business [20]

Since 2017, a completely new era has begun in the banking system of the Republic. The adoption of the strategy of action by the president of the Republic of Uzbekistan Shavkat Mirziyoyev on five priority directions of development of the Republic of Uzbekistan in 2017-2021 gave impetus to the next stage of reforms in the national banking system. In the framework of deepening the reforms carried out in the economy and further strengthening the macroeconomic stability and maintaining the pace of economic growth, along with a number of tasks, further improvement of monetary and credit policy on the account of the use of instruments in accordance with advanced international experience, ensuring the stability of the national currency and prices in the.

Proceeding from the above tasks, at a new stage, the implementation of a radical change process in Uzbekistan aimed at achieving effective changes in the economy and forming a reliable basis for its sustainable and inclusive growth was initiated.

The successful implementation of this task is closely connected with the radical improvement of the investment attractiveness of the Republic and the liberalization of foreign exchange policy.

At the new stage, the first reforms in the economy began, first of all, from the banking-financial system, which was considered the blood vessel of the economy. To this end, by the decree of the president of the Republic of Uzbekistan dated September 2, 2017, individuals who are residents of the Republic of Uzbekistan were given the right to purchase foreign currency at the exchange offices of commercial banks from the Free Sale and conversion departments and use it abroad without any restrictions. Thus, in order to strengthen the position of the national currency as a single means of payment, it was forbidden to make payments in foreign currency for goods and services (works) in the territory of the Republic of Uzbekistan [21].

The measures taken in this regard began to yield their results at a short opportunity. In particular, as of September-October 2017, when the decree was adopted, the average monthly volume of operations on the foreign exchange market increased by 1,7 times compared to the corresponding figure of the first half – year. At the same time, foreign exchange trading operations by exporters increased by 2 times compared to the average monthly operations in the first half of this year [22].

In general, by the end of 2017 year, the volume of foreign currency buying and selling operations increased by 1,5 times compared to the period of liberalization, averaging 1,3 billion dollars. At the same time, the gold and currency

reserves of the state during the year increased by 1,1 billion dollars.

The work carried out in the foreign exchange market was also positively assessed by international organizations. In particular, on November 7-16, 2017, the mission of the International Monetary Fund (IMF) under the leadership of Albert eger received a statement after the visit to Tashkent, in which it was noted that " the mission will positively assess the work of the official bodies in accordance with the priorities of the development strategy developed by the president of the Republic of Uzbekistan on [23].

The first reforms carried out in the system began to serve the revival of the country's economy, and more importantly, the well-being of the population. By 2020, 31 commercial banks operate in the banking system of Uzbekistan. Among them, if there are banks with a state share of 13 banks, 16 banks are private banks or banks with the participation of foreign capital. Since July 2019, tenge bank as an affiliate Bank of the Kazakh "Halyk bank" has started its activity. TBC Bank of Georgia, which has purchased the Payme payment service shares management package, has started to carry out banking activities since April this year [24].

Despite the successes achieved in the new era, the signs of the economy of the monopolistic character formed during the last quarter century in the economy, the competition in the banking system almost did not develop [25], the practice of preferential loans was not abandoned, the need to take drastic measures this year for the development of the banking system has come.

In this regard, President Sh.Mirziyoyev touched upon separately, defining the tasks aimed at eliminating the problems accumulated in the field and introducing modern performance measures. In particular, these tasks are an indicator of the following: introduction of digital technologies in the banking system, introduction of new banking products and bringing them to the modern demand for software; establishment of a "project factory" in the banking system that supports entrepreneurs; access of banks to international financial markets, bringing cheap and long-term resources; step-by-step sale of state-owned banks to strategic investors; establishment of modern personnel training in the field; radical updating of their software through the wide application of information technologies in banks; formation of trust in the population in relation to the banking system and Prevention of foreign interference in the activities of banks [26].

In conclusion, a number of problematic periods were observed in Uzbekistan during the formation and development of the modern banking system. The banking system, founded in the Times of the Russian Empire, suffered from Soviet experience. As a result, the banking system of the country, which has been operating in the form of a monobank for almost seventy years, has gone beyond the path of evolutionary development and the advanced experience of the world. In the years of independence, Uzbekistan created the basis of an independent banking system, which is suitable for the world market, but from the mid-1990s to 2017, the policy pursued in the banking sector, including in the foreign exchange market, has served as a further impetus for the development of the country's

economy at a high rate of growth, this led to a decrease in the incidence of work aimed at ensuring employment and further improving living conditions of the population. Since 2017 year, as a result of the reforms that began to be carried out in the banking system, positive changes began to be observed. At present, new tasks have been set to deepen the reforms in the banking sector and eliminate the problems that have accumulated over the years. In particular, it should be noted that in recent years the principle of "the client is not the bank, but the bank for the client" has become the main criterion for the activities of commercial banks.

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