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**FINANCIAL INSTITUTIONS’ DEVELOPMENT ASSESSMENT IN THE REPUBLIC OF UZBEKISTAN**

Amongst transition economies Uzbekistan has been performing the best practices in financial sector development based on long term development strategy through appropriate sequencing of liberalization and institutional preconditions. After national independence the Republic of Uzbekistan accelerated the economic growth despite the difficulties in transition to market economy and reforms in ownership structure in the early years. Series of prudent reforms and modernization measures covered all sectors of economy and, as a result, led to improvement in socio-economic condition and economic profile of the country. State support for business and financial sector played an important role in enhancing the economic condition. Financial sector development measures were a key to withstand the effects of global financial crisis.

The financial system is divided into two categories – financial institutions and financial markets [1, p.11]. Being a driving force of the national financial system financial institutions, especially banks, have a central role in the financial sector of Uzbekistan. Financial institutions development has direct influence on the economic performance of businesses and individuals because of its wider coverage and inclusion in case of Uzbekistan. In order to differentiate the annual conditions and determine the negative and positive changes we selected the latest two financial years and illustrated the results in table 1. We analyze development in terms of annual growth in absolute and relative numbers.

Banks hold the most important position in national financial system due to delivery of main financial services for all categories economic agents [2, p34]. As experts of World Bank recommended national banking system should be measured in following four broad criteria: financial depth and financial inclusion, efficiency and stability [1, p22]. Financial depth characterizes financial system by measuring the size of banking system relative to the size of the economy. Total bank assets to GDP, deposits to GDP and provided total credit to GDP are main indicators of this criterion. As for the depth of banks in Uzbekistan, all indicators increased by significant percentile or number (0, 22, 2 and 3,1 per cent respectively). Access to financial services implies the absence of obstacles to the use of these services. Measures of banking services’ inclusion are strongly associated with economic development and it accelerates economic growth, stimulates competition, and boosts the demand for labor [2, p15]. This article contains both variables that measure the use of financial services by reflecting both supply and demand as well as variables that focus more closely on the supply of financial services. These measures include total number of commercial banks (no change) number of branches and outlets (increased by 8) accounts per thousand adults in commercial banks (0,001), branches of commercial banks per 100 000 adults (no change).

In order to perform its functions well, banking systemshould be efficient. The degree of stabilityis also an important feature of the banking sector. Stability of banking system is probably the most important for broadermacroeconomic stability by specificallymeasuring systemic risks. Moreover, itis closely interlinked with the broader processof financial development. Capital adequacy ratio, asset quality ratio and liquidity ratio can be the main indicators of stability. Regulating and setting the requirements for performance of banking systems around the world are conducted by Basel Committee on Banking Supervision. According to Basel regulations capital adequacy and liquidity ratios must be at least 8 and 30 per cent correspondently. In Uzbekistan these indicators are 3 and 2,2 times (24,3 and 65,0 per cent) higher than required rate. It is clear that banking system stability of Uzbekistan is several times higher than world average in post crisis recovery period.

Non-bank financial institutions also have been strengthening their position in financial system. Especially insurance and leasing operations extend their horizon and offer wide range of services to customers due to strong competition among insurance and leasing companies. Insurance acts as a stabilizer of the economic and social situation in the country and as part of financial system. Insurance companies serve as the main providers of risk minimization and financial safety. In case of Uzbekistan insurance is a progressively developing sub-sector of financial system. New types of insurance services and growing number of insurance companies have been improving the quality of service through competitive insurance market. In quantitive terms we can measure the insurance market development with annual change in the number of insurance companies (increased by 4), authorized capital of insurance companies (10,1 per cent), total investment of insurance companies to GDP (-0,1 per cent) and gross premiums to GDP (0,02 per cent) [5]. These indicators show the scope and strength of insurance as well as the stance of consumer-provider relations.

Leasing is one of the most progressive methods of the logistics of production, opening the company access to advanced technology. Analysis of international experience shows that in recent years, leasing operations have become an integral part of the economy in many countries. Currently 25-32% of investments in developed countries and about 13-16% of the investment in developing countries account for leases. Leasing becomes widespread across all regions and sectors of national economy by providing businesses with easier access to technologies and other forms of real estate. Leasing system development assessment bases on simple indicators such as number of leasing companies (no change), total value of leasing contracts/number of leasing contracts (42,7 per cent), portfolio value of leasing operations ( 16,5 per cent), share of leasing in capital investments (0,1 per cent) and share of leasing in GDP (0,1 per cent). In the last decade leasing operations and deals grew significantly both in number and coverage. Holding a strong position in financial system, 99 legal entities (24 commercial banks and 75 leasing companies) leased 805,2 billion Uzbek soums (thereinafter UZS) which is 36 percent higher than in 2012. Total portfolio value of lease contracts increased by 16,5 percent and reached 1 511 billion UZS [6]. It is considerable point that leasing services are mainly offered to construction companies, farmers and agricultural producers which really need for new technologies and know-hows in order to improve efficiency and business performance.

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| **Table 1. Sectoral indicators of financial development** | | | | |
| **Sub-sector** | **Indicator** | **2012** | **2013** | **Change** |
| Banking | Total number of commercial banks | 29 | 29 | 0 |
| Number of branches and outlets of commercial banks | 829 | 837 | 8 |
| Branches of commercial banks per 100 000 adults | 49,7 | 49,7 | 0 |
| Banking accounts per capita in commercial banks | 1,027 | 1,028 | 0,001 |
| Total deposits in commercial banks | 18200 | 26100 | 43,4% |
| Bank deposits/GDP (%) | 18,8 | 21,9 | 3,1 |
| Total bank assets billion (UZS) | 35744 | 43868 | 22,2 % |
| Total bank assets/GDP (%) | 37 | 37 | 0 |
| Total credits of commercial banks | 20392 | 26530 | 30,1% |
| Total credits of commercial banks/GDP (%) | 21,1 | 22,3 | 2,2 |
| Capital adequacy ratio | 24,3 | 24,3 | 0 |
| Liquidity ratio | 65,5 | 65,0 | -0,5 |
| Insurance | Number of insurance companies | 31 | 35 | 4 |
| Authorised capital of insurance companies | 260,86 | 287,28 | 10,1% |
| Total investment of insurance companies/GDP (%) | 0,45 | 0,44 | -0,01 |
| Gross premiums/GDP (%) | 0,26 | 0,28 | 0,02 |
| Leasing | Number of leasing companies | 99 | 99 | 0 |
| Total value of leasing contracts/number of leasing contracts (million UZS) | 84,0 | 119,9 | 42,7% |
| Portfolio value of leasing operations (billion UZS) | 1297 | 1511 | 16,5% |
| Share of leasing in capital investments, (%) | 2,7 | 2,8 | 0,1 |
| Share of leasing in GDP (%) | 0,6 | 0,7 | 0,1 |
| Source: Author’s compilations and calculations based on the official data released by correspondent government authorities. | | | | |

In economic transition process financial system reforms are extremely difficult and risky because financial sector regulates and manages the wealth of nation and government. Analysis of two-year-period changes shown that overall stance of financial institutions stabilized further and tempo of development accelerated. In banking system only liquidity ratio decreased slightly with insignificant influence and other three indicators remained unchanged. In insurance system negative rate was in total investment of insurance companies to GDP. In contrary, all indicators of leasing expected positive changes and absolute development. Drawn conclusions reveal that financial institutions performed their functions in consistent with long term development strategy.

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