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Ways of Integration of Commercial Banks of Uzbekistan into The World Banking System

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ABSTRACT

This article describes Uzbekistan's integration into the global financial services industry in the development of the digital economy context: the legal framework for the activities of commercial banks, current issues in the implementation of these services in our country, and their solutions. Also, analyzing the relevant literature analyzes the scientific works of many foreign economists on forming integrated corporate structures by ensuring integration of the banking and financial system and industries. The results show that innovative lending services and introducing credit vacations for commercial banks are crucial to the development of the banking system of Uzbekistan. Furthermore, useful ideas are presented to integrate Uzbekistan's banking sector with the international financial system

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1. INTRODUCTION

Identifying of current issues and flaws in the industry of capital market development is essential to ensuring the nation's economic growth, while also improving comprehensive policies to address them (Dadabayev et al., 2021). It should be noted that the measures taken by Uzbekistan to improve the legal framework for the organization of non-bank credit institutions in global financial services and simplify licensing procedures, to involve commercial banks in microfinance processes have significantly expanded the size of microfinance services in the economy.

In the Banking Reform Strategy of the Republic of Uzbekistan for 2020-2025, the implementation of lending only on market terms, improving the quality of loan portfolio management, and adherence to a moderate increase in lending are recognized as priorities for reforming the country's banking system (Wael Hermit, 2020).

During the years of independence, the banks of Uzbekistan have also managed to adequately develop their services. However, competition between banks is pushing them to take a new approach to attract more customers and expand the range and quality of services provided. In order to effectively organize the work in this direction, the Address of the President of the Republic of Uzbekistan to the Oliy Majlis emphasizes the need for radical reform of the banking system, transformation of banks, introduction of modern banking practices, management and new services. In particular, the Government and the Central Bank should develop long-term strategies for the development of the banking and financial system with the support of international financial institutions.

In fact, the Presidential Decree "On measures to further improve the field of information technology and communications" (DP-5992), "On measures to develop the digital economy in the Republic of Uzbekistan" (DP-3832, 2018), "2020 - Science and Education The year of the economy and the development of the concept of "Digital Uzbekistan" by 2030, (Mirziyoyev, 2019) poses a number of tasks for the banking system in this consideration. Based on the above conceptual opinions, the topic of this article is appropriate. Summary of the Literature, the term "digital economy" was presented into scientific practice by Manuel Castels (1999), a Spanish-American sociologist and one of the world's leading researchers in the information society. In this context, he printed the three-volume monograph "The Information Age, economy, society, culture". He says that the digital economy represents two different types of theories:

(i) First, the digital economy is a present-day stage of evolution. It is characterized by the most important consideration of creative work and the usefulness of the information.

(ii) Second, a distinctive theory for examining the information society is the digital economy. The discussion of the digital economy is just beginning. It began to develop decades ago as the transition to the digital information phase began. The most important aspect of information technology in the globalization of economic operations is what unites these perspectives. The term digital economy is also determined by many local economists. For instance, Umarov (2018) emphasized that "the digital economy is a system of economic, social, and cultural communication based on the use of digital technology. The new economy, the web economy, and the digital economy are some other names for it. The digital economy is not a particular kind of activity, in reality, it refers to businesses, manufacturing, and services. Digital economy refers to the active application of information technology in all of these contexts. For simple savings, data Commodities are the primary resource, and in the digital economy information and data can be sorted out and relayed. After their research, a resolution for formal management is expanded.

Analysis of the literature on the challenges of the formation of integrated corporate structures by ensuring the banking and financial system integration and industries have been studied by many foreign economists as specialized research, and these studies have important scientific approaches (Dadabayev et al.,2021). The establishment of banking institutions in Uzbekistan, in particular, the start of current banking services due to the spread of information and communication technology is important today (A.R.Narov et al.,2021). Especially, "Artificial intelligence" and digital technologies are widely used by banks to improve the services of small and large fintech companies.As new hostiles of the market began to threaten old financesinstitutions of all sizes (Irisbekova et al.,2021). At the same time, new technologies bring great opportunities to the banking services market. In recent years, the state has worked hard to improve new information communication technology and the introduction of new technology mechanisms of service provision by commercial banks.

3. METHODS

The research is based on secondary data collection through relevant previous literature and reliable websites. The sources of relevant literature investigation have been derived from the official websites of Uzbekistan (cbu.uz) and four databases, namely, EBSCO host, Web of Science, Scopus and Emerald. The types of bibliographic sources included in the research are 37 articles published in scientific journals, books, conference proceedings, company papers and studies, white papers, online sites, and online journals. An economic analysis was conducted to determine the amount of credits that positively impact the country's economy and the GDP impact of financing innovative projects, especially in the real sector. The practical importance of this work is to ensure the quantitative growth of the country's GDP in order to ensure domestic growth of the country. It will reach 350 trillion sum in 2025. One consideration in sustainable economic development is funding innovative programs in order to reduce the unemployment rate. A comparative analysis of these standards is determined by making suitable guidance on this basis.

4. RESULTS AND DISCUSSION

According to The Boston Consulting Group (2016), the high level of e-commerce development in China is noteworthy. At the same time, China's e-commerce turnover is \$ 18 billion, during which time Chinese consumers spend about \$ 750 billion to buy the Internet. In general, according to the Chinese Ministry of Commerce, by the end of 2016, the country's share in international e-commerce was 39.2%. At the same time, according to the network development program adopted in the country in 2016-2020, the volume of e-commerce in 5 years will reach 5.8 trillion. U.S. dollars. According to the McKinsey & Company (2016) Institute, digital technologies will increase China's GDP by 22% by 2025 and by 34% for Russia. It has been shown that by 2025, the expected cost of creating digital technologies in the U.S. could reach \$ 1.6-2.2 trillion.

According to Table 1, South Korea, Norway and Iceland are in the top three. Russia lags behind leading South Korea by 27.7 points, but ranks higher than China, Chile, Turkey, Brazil and Mexico. In general, Russia today is recognized as a country with high potential in the process of introducing the digital economy. The role and importance of digital technologies in the development of the world is growing every year. In particular, the

widespread introduction of technical transformation processes in the financial sector further increases the efficiency of banking systems, payment operations, lending and other similar services.

This type of technology, which improves and optimizes financial services, is a financial technology called "Fintex" ("FinTech"). According to Accenture Consulting (2019), a total of \$ 27.4 billion was spent on fintech starts worldwide in 2019, up 18 percent from 2018. The Forbes FinTech 50, which compiles a list of the most successful financial technologies expected, notes that financial services and market capitalization in the U.S. is a serious competitor to the \$ 8.5 trillion domestic banking sector. It should be noted that financial technologies are able to change not only the individuals and legal entities dealing with financial capital but also the image of the financial market itself. These types of developments allow you to analyze data, monitor the situation on the stock exchange, and choose investment strategies.

Table 1. I-DESI subindexes for 2020

| Countries | Digital (I-DESI index) | Connectivity Human level capital | Use of the Internet | Integration of digital technologies | Digital government services |
|-----------------|------------------------|----------------------------------|---------------------|-------------------------------------|-----------------------------|
| South Korea | 75,2 | 79,8 | 74,5 | 63,8 | 83,0 |
| Norway | 73,0 | 75,8 | 85,2 | 65,8 | 72,5 |
| Iceland | 72,7 | 72,4 | 75,9 | 75,7 | 53,7 |
| Japan | 68,5 | 72,5 | 73,9 | 53,0 | 75,0 |
| Australia | 67,8 | 56,8 | 57,8 | 57,3 | 88,9 |
| Canada | 67,0 | 59,6 | 66,2 | 65,4 | 81,5 |
| United states | 66,7 | 71,3 | 71,0 | 61,8 | 79,0 |
| New Zealand | 65,8 | 55,4 | 58,2 | 55,6 | 81,6 |
| 28 EU countries | 58,9 | 62,9 | 59,7 | 51,3 | 63,1 |
| Israel | 55,6 | 54,3 | 58,5 | 45,2 | 65,4 |
| Russia | 47,5 | 38,9 | 48,7 | 29,8 | 56,8 |
| China | 45,3 | 47,8 | 45,3 | 40,7 | 58,6 |
| Chile | 44,9 | 47,8 | 32,9 | 40,5 | 61,4 |
| Turkey | 41,5 | 43,3 | 35,9 | 27,7 | 43,2 |
| Brazil | 39,7 | 39,5 | 33,8 | 27,8 | 62,4 |
| Mexico | 43,1 | 45,5 | 30,0 | 33,7 | 67,2 |

Source: author's elaboration on DESI

Today, the government is doing a lot of positive work on the development of the digital economy in our country, in particular, in the Address of the President to Oliy Majlis (2020) "It is necessary and necessary to acquire digital knowledge and modern information technologies. This allows us to take the shortest path to the ascent. After all, today in the world, information technology is penetrating deep into all areas, and digital technologies not only improve the quality of products and services, reduce unnecessary costs.

At the same time, they are also an effective tool in overcoming the scourge of corruption - the most serious flaw that worries and annoys me so much. We all need to understand this,"he said."Unfortunately, the banking system lags behind modern requirements for the use of digital technologies, the introduction of new banking products and software for 10-15 years. A large-scale transformation program will have been implemented in each bank by 2020. The World Bank has allocated \$ 700 million to support Uzbekistan's anti-crisis program. In addition to the \$14 billion credit line, the U.S. decided to allocate dollars. At present, the bank's management has allocated 1.2 billion soums to finance the healthcare system, and social protection institutions, as well as budget support. It was noted that the issue of operational allocation of funds in the amount of USD is being considered.

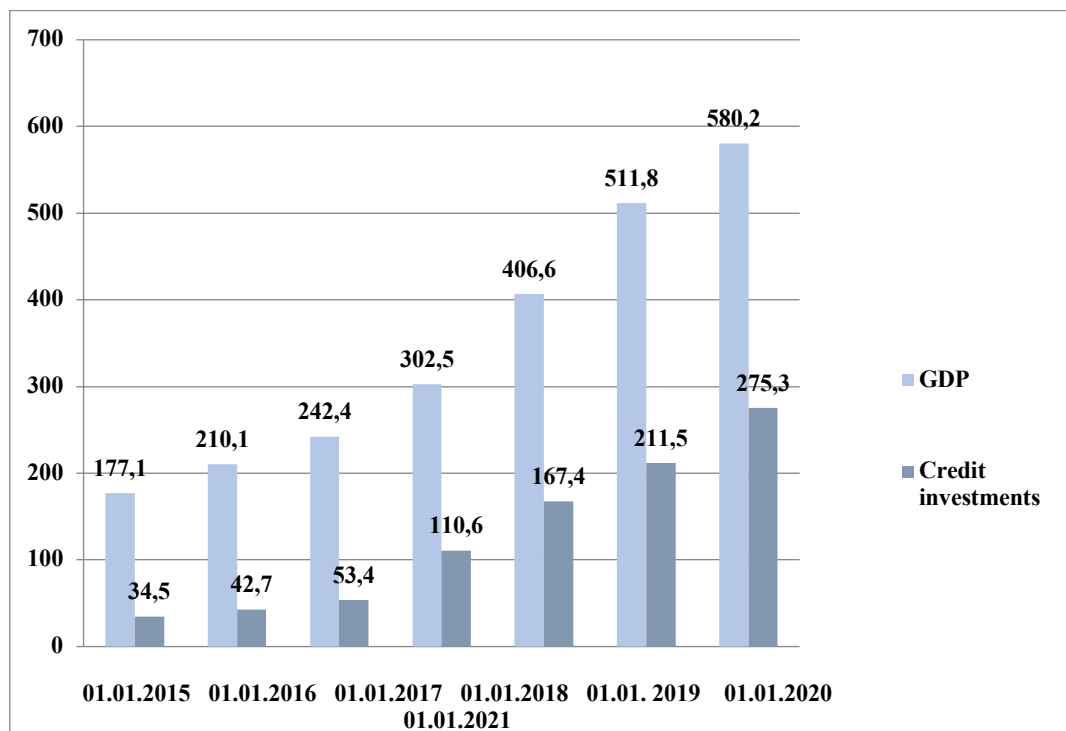


Figure 1. Amount and share of credit investments of GDP and commercial banks in the country.

It can be seen in (Figure 1), four commercial banks in Uzbekistan received \$200 million from the European Bank for Reconstruction and Development's \$ 1 billion Solidarity Package. Small and medium business projects were financed in US dollars using credit lines and trade finance lines. If we analyze the work done by commercial banks on the growth of the Uzbek economy, as of January 1, 2021, the country's gross domestic product was 580.2 trillion soums, up 11.8% from January 1, 2020. The gross domestic output increased by 25.8% from 2019 to 2020, reaching 511.8 trillion soums. The GDP of the nation and the amount of loans from commercial banks both increased from 2014 to 2020. As of January 1, 2020, the total amount of loans to the real sector of the economy increased by 26.3% in comparison to prior years and totaled 211.5 trillion soums. Loan growth as a proportion of GDP was 41.3%. This leads us to the conclusion that creative activity is prevalent in our nation, and that rising need for money also signals rising credit levels. However, the fact that the ratio of loans to GDP increased by just 0.1% over prior years demonstrates that the country's real sector is not receiving enough loans (Figure1). Research methods such as correlation-regression analysis, analysis and synthesis, induction and deduction, statistics and comparison were used in the research. Brief description of the results of the research:

- (i) It was found that an increase of 1% in the workforce of businesses using innovative and information technologies might result in an increase of at least 8% in the proportion of businesses to GDP;
- (ii) In order to ensure national growth in the Republic of Uzbekistan, the quantitative growth of the country's GDP by 2025 will reach 350 trillion. Assuming that the amount of loans required from banks to achieve this result is 25.543 trillion soums. it was determined that it should be UZS;
- (iii) Scientific views of some economists on the application of innovative technologies in the computer system in the digital economy;
- (iv) Recommendations were made to create conditions for the development of the digital economy in order to accelerate the widespread use of innovative technologies in the accounting system. For example, the development of a regulatory framework for the system of incentives for businesses that develop, recommend and apply innovative products, the optimal organization of innovation based services and pricing policy etc;
- (v) Recommendations were made on the creation of the necessary conditions to increase the number and volume of remote financial services provided to the population in the digital economy, including the need to introduce an ID card system and the mechanism of its use in financial transactions.

Limitations and future directions

Although the present study provides valuable insights into how to integrate our commercial banks, there are several limitations that should be recognized. First, a high degree of transparency must be ensured in the formulation and implementation of its policies and the Bank must maintain close contact with the market. Particularly in Uzbekistan, the banking sector is still tightly regulated in many aspects. All banks are required to implement the Law of Accounting in Uzbekistan, prescribes basic reporting principles. This situation will change especially after the Uzbekistan joined the WTO, and SCOBs successfully made operations with foreign banks. The Uzbekistan government also should not apply more pressure to supply “policy loan” on the SOCBs which leads to some low returns. And it should also develop new statistics, to better reflect changing in economic conditions, while continuing to improve its existing ones.

Second, for Uzbekistan banks, the macroprudential policy function needs to be strengthened. Furthermore, banks must continue to make efforts to ensure the efficiency and stability of payment and settlement systems. They should make every effort to ensure the efficient and secure operation of payment and settlement systems. Third, there should be more serious outreach to escalate international cooperation. With the recent global financial crisis, banks should maintain closer cooperative relationships with international financial institutions and other central banks.

Fourth, strong and sound cooperative relations with the government must be maintained. Banks should try to coordinate their monetary policy with the government's economic policy because monetary policy is inseparable from exchange rate policy. Cooperation with governments and supervisory authorities has been essential to ensure financial stability since the global financial crisis. In the meantime, banks should be given more operational freedom in terms of commercial competition and interest rate fixing. Last but not the least; bank's managerial efficiency should be improved.

Organization and personnel management is significant for the banks. The organization needs a rapid decision-making system to respond to expected changes in the national and global economy in a proactive and timely manner. Human resources are also very important. Employees must undergo ongoing training and education to develop their expertise and abilities. Similarly, academic exchange and joint research with external organizations such as foreign central banks should be stepped up. These are the important factors that affect efficiency. Measuring, understanding and improving banking performance is a major concern not only of bank executives but also of the government.

5. CONCLUSION

The coexistence of Uzbekistan's commercial banks with the world's banks paves the way for greater integration and globalization. The development of the integration process required the use of modern ICT on the one hand brought about a business revolution. The tuition of these procedures from the economic and political point of opinion and drawing empirical deductions is a necessity of the time. The digital economy is an important associate of corruption and the "black economy". Because numbers seal everything, store it in memory, and supply information rapidly when needed. In such conditions, it is absurd to hide information, make secret deals, give complete information about this or that activity, and the computer shows everything. The richness and structure of data discourage lies and deception, it is impossible to fool the system. As a result, it is not possible to launder "dirty money", steal funds, expend them inefficiently and aimlessly, amplify or conceal. In our minds, notable consideration should be paid to the realization of the following measures by commercial banks for the development of business entities operating through innovation and information technology.

It is required to present innovative online lending services in the banking practice of Uzbekistan. Lending practices are widely used online in banking practices in developed countries. In order to improve this type of service, it is necessary to improve the speed and quality of the Internet, and increase the computer literacy of businesses. This is because innovative online lending can be characterized by meeting the demand of businesses for lending practices without spending a lot of effort and time:

In order to eliminate the possibility of artificial credit dependence in the activities of economic entities in the credit practice of commercial banks, it is necessary to establish a "credit vacation" for businesses operating through innovative and information technologies. In our opinion, the determination of the terms of repayment of principal and interest on loans to commercial banks by businesses operating through innovation and information technology, based on the period of their production, would contribute to the development of its future activities.

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