

TOPICAL ISSUES OF CREDIT MARKET DEVELOPMENT IN UZBEKISTAN

Javlanova Shakhnoza Djalolitdinovna
Independent Researcher at the Banking and
Finance Academy of the Republic of Uzbekistan

Abstract

The credit market is one of the main segments of the national financial market. It ensures the flow of credit resources, and credit is an important factor in ensuring economic growth while maintaining macroeconomic stability.

This article identifies current issues related to the development of the credit market in Uzbekistan and develops research proposals aimed at addressing these challenges. Specifically, it substantiates the need to develop the credit market by improving the credit market regulation system and reducing the state's share in the regulatory capital of commercial banks.

Keywords: Credit, credit market, credit resources, commercial bank, interest rate, refinancing policy, key rate.

Introduction

The Resolution of the President of the Republic of Uzbekistan No. UP-5992 dated May 12, 2020, "On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025," notes that improving the efficiency of the banking system by creating equal competitive conditions in the financial market, lending exclusively on a market basis, reducing banks' dependence on public resources, modernizing banking services, ensuring the financial stability of the banking system by improving the quality of the loan portfolio and risk management, and maintaining moderate growth in lending volumes are priority areas for reforming the country's banking system [1]. This necessitates the development of a national credit market.

Research Methodology

The object of this study is the national credit market of Uzbekistan. The subject of the research is the financial relations arising from the movement of loan capital through the credit market. The following scientific research methods were used during the study: expert assessment, statistical grouping, and financial analysis.

The research base was comprised of official statistical data from the Central Bank of Uzbekistan.

Literature review on the topic

F. Kotler notes that a market is a collection of existing and potential buyers of a product or service [2].



In our opinion, this definition reflects the fundamental essence of credit relations – the movement of loan capital between entities with temporarily available funds and those in need. However, this definition limits the credit market to interactions between entrepreneurs and capital owners, not encompassing all credit market participants.

S. Galitskaya believes that "the credit market, like the loan capital market, represents the totality of relations between capital owners (creditors) and entrepreneurs (borrowers)" [3]. However, the above definition does not reflect the diversity of possible subjects of credit relations.

According to N. Antonov and M. Pessel, the credit market is a mechanism through which relationships are established between enterprises and individuals in need of financial resources, and the organizations and individuals who can provide (lend) them under certain conditions [4].

G. Belorglazova and L. Krolivetskaya argue that the credit market is a mechanism through which relationships are established between enterprises and citizens in need of financial resources, and organizations and citizens who can provide (lend) them under certain conditions [5].

L. Krolivetskaya and V. Krolivetskaya give the following definition of the credit market: "The credit market is a set of economic relations concerning the purchase and sale of loan capital in order to ensure the continuity of the reproduction process, as well as to satisfy the needs of the state and the population. This market accumulates free monetary funds (resources) of economic entities, the state, as well as personal savings of citizens, which are then transformed into an object of sale (loan capital) and redistributed on the terms of repayment, urgency and payment in accordance with the demand and supply for them" [6].

According to V. Kovalev, credit market indicators (lending volumes, debt structure, interest rates) serve as indicators of the overall state of the economy and the level of trust among financial participants. Thus, the credit market acts as a kind of barometer, reflecting the current state of the macroeconomic environment [7].

E. Panfilova notes that "the credit market is a crucial element of the financial system, ensuring the movement and redistribution of temporarily idle monetary resources between various economic actors. Its essence is manifested in the system of economic relations between creditors and borrowers, arising on the basis of repayment, maturity, and payment" [8].

According to A. Ismailov, "in order to improve the mechanism for regulating the money supply, it is necessary to refine the practice of using monetary policy instruments and ensure stable growth rates of the money supply through the formation and development of a national loan capital market" [9].

Analysis and Results

In Uzbekistan, the credit market is an important segment of the organized financial market. The organized financial market is a specialized financial market where trading in foreign currencies, government securities, derivative financial instruments, and credit resources takes place.

Table 1



The structure of the organized financial market of Uzbekistan¹, as a percentage of the total volume of transactions

	2022 y.	2023 y.	2024 y.
Foreign exchange market	47,8	45,8	38,9
Credit market	38,4	48,3	55,8
Government debt securities market	13,8	5,9	5,3
Total volume of transactions in the organized financial market	100,0	100,0	100,0

As can be seen from Table 1:

- the share of the foreign exchange market in the total volume of transactions in the organized financial market of the Republic in 2022-2024 showed a downward trend;
- the share of the credit market in the total volume of transactions in the organized financial market of the Republic in 2022-2024 showed an upward trend;
- the share of the government debt securities market in the total volume of transactions in the organized financial market of the Republic in 2022-2024 showed a downward trend.

In 2024, the volume of money market transactions increased by 31% compared to 2023, totaling 507 trillion soums. Meanwhile, the downward trend in deposit transactions persisted, with their volume decreasing by 25%, while the volume of repo transactions increased 3.6-fold. This trend, in turn, is explained by the growing demand for collateral to manage credit risks in interbank transactions. In 2024, the share of repo transactions in the money market amounted to 54%, and the volume of government securities in circulation more than doubled in 2024, reaching 44 trillion soums at the end of the year.

An analysis of the credit market in 2024 revealed the following:

- In 2024, the average weighted interest rate on the money market was 14.1%, with deposit interest rates at 14.5% and the repo rate at 13.7%;
- Higher interest rates on deposits are due to the increasing share of transactions with maturities longer than one day;
- The UZONIA interest rate, the benchmark money market rate, remained close to the key rate within the interest rate corridor in 2024 (averaging 13.6% throughout the year). The convergence of the UZONIA and main rates is explained by the reduction of the overall liquidity surplus, as well as positive changes in the pricing policy of banks [10].

Table 2 Average weighted annual interest rate on loans from commercial banks in Uzbekistan², in percent

Indicators	Years				
	2020	2021	2022	2023	2024
Average weighted annual interest rate on short-term loans (up to 1 year) in national currency	23,6	22,1	21,3	22,2	23,1
Average weighted annual interest rate on long-term loans (over 1 year) in national currency	23,8	22,5	20,6	21,7	22,4
Average weighted annual interest rate on short-term loans (up to 1 year) in foreign currency	8,1	6,7	7,0	6,7	8,8
Average weighted annual interest rate on long-term loans (up to 1 year) in foreign currency	6,9	7,0	6,5	6,6	8,4

¹ The table was compiled by the author based on statistical data from the Republican Currency Exchange.

² The table was compiled by the author based on statistical data from the Central Bank of Uzbekistan.

As can be seen from Table 2:

- in 2022-2024, the average weighted annual interest rate on short-term loans from commercial banks of Uzbekistan in national currency showed an upward trend, which is explained by an increase in interest rates on short-term deposits in national currency during this period;
- in 2022-2024, the average weighted annual interest rate on long-term loans from commercial banks of the Republic in national currency showed an upward trend, which is explained by an increase in interest rates on long-term deposits in national currency during this period;
- From 2020 to 2024, the average weighted annual interest rate on short-term foreign currency loans issued by commercial banks in Uzbekistan remained stable.
- The average weighted annual interest rate on long-term foreign currency loans issued by commercial banks in Uzbekistan increased significantly in 2024 compared to 2020. This is due to an increase in interest rates on foreign currency deposits during this period.

Below, we examine the amount and level of loans issued by commercial banks in the country.

Table 3 Amount and level of loans from commercial banks in Uzbekistan³

Indicators	Years				
	2020	2021	2022	2023	2024
Amount of commercial bank loans, billion soums.	270213	316382	378909	457847	514693
Share of loans in total assets, %	73,8	71,1	68,1	70,2	66,9

As Table 2 shows, the amount of loans issued by commercial banks in Uzbekistan has been growing from 2020 to 2024. However, the share of loans in total assets of commercial banks in the country decreased significantly in 2024 compared to 2020, due to a significant increase in the share of securities investments in total bank assets.

One of the main challenges associated with the development of the credit market in Uzbekistan is the relatively high level of non-performing loans in total commercial bank loans.

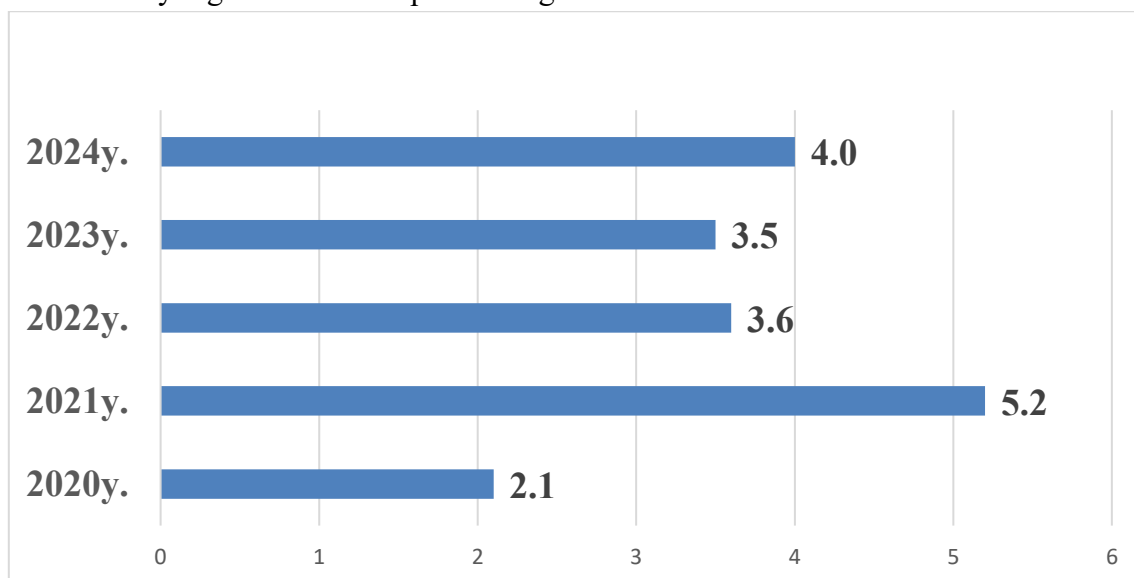


Figure 1. The share of problem loans in the total volume of loans of commercial banks in Uzbekistan⁴

³ The table was compiled by the author based on statistical data from the Central Bank of Uzbekistan.

⁴ The figure was compiled by the author based on statistical data from the Central Bank of Uzbekistan.



As Figure 1 shows, non-performing loans accounted for a relatively large share of total commercial bank loans from 2020 to 2024.

Conclusions and Proposals.

Our research led us to the following conclusions:

- the credit market is a mechanism through which relationships are established between businesses and individuals in need of financial resources and organizations and individuals that can provide them under certain conditions;
- Credit market indicators (lending volumes, debt structure, interest rates) serve as indicators of the overall state of the economy and the level of trust among financial participants. Thus, the credit market acts as a kind of barometer, reflecting the current state of the macroeconomic environment;
- The credit market is a crucial element of the financial system, ensuring the movement and redistribution of temporarily idle monetary resources among various economic actors. Its essence is manifested in the system of economic relations between creditors and borrowers, arising on the basis of repayment, maturity, and payment;
- the share of the entire credit market in the total volume of transactions in the organized financial market of the Republic showed an upward trend in 2022-2024;
- in 2022-2024, the average weighted annual interest rate on short-term loans of commercial banks of Uzbekistan in national currency showed an upward trend, which is explained by an increase in interest rates on short-term deposits in national currency in this period;
- in 2022-2024, the average weighted annual interest rate on long-term loans of commercial banks of the Republic in national currency showed an upward trend, which is explained by an increase in interest rates on long-term deposits in national currency in this period;
- In 2020-2024, the average weighted annual interest rate on short-term loans from commercial banks of Uzbekistan in foreign currency remained stable.
- The average weighted annual interest rate on long-term loans from commercial banks of Uzbekistan in foreign currency increased significantly in 2024 compared to 2020. This is due to an increase in interest rates on foreign currency deposits during this period.
- In 2020-2024, the amount of loans from commercial banks of Uzbekistan showed an upward trend. However, the share of loans in the total assets of commercial banks of the country decreased significantly in 2024 compared to 2020.
- From 2020 to 2024, problem loans accounted for a relatively large share of total commercial bank loans.

In our opinion, the following measures are necessary to develop Uzbekistan's credit market:

1. To improve the mechanisms for implementing deposit and loan operations, it is necessary, firstly, to ensure the comprehensive use of credit risk hedging instruments (Credit Default Swap, Index Credit Default Swap, forward on the credit spread, Credit Spread Option); secondly, to create a liquid secondary market that ensures pricing for traded instruments and sets price benchmarks for new loans; thirdly, to widely utilize special refinancing instruments of the Central Bank of Uzbekistan secured by highly liquid instruments.
2. To increase the liquidity of the credit market, it is necessary, firstly, to introduce an intraday lending instrument for the provision of interest-free loans secured by collateral during the trading day; secondly, to reduce the additional burden on commercial banks by reducing

reserve requirements for deposits and leaving the reserve amount in the correspondent "Nostro" account of commercial banks; thirdly, to ensure the formation of the market rate on the short-term credit market close to the key rate within the boundaries of the Central Bank's interest rate corridor; fourthly, to create an instrument for the effective control of changes in interest rates on the credit market through the Central Bank's repo auctions.

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