



**THE CENTRAL BANK OF
THE REPUBLIC OF
UZBEKISTAN**

ANNUAL REPORT 2023

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ACRONYMS

ACCA	Association of Chartered Certified Accountants
AFI	Alliance for Financial Inclusion
ARIMA	Autoregressive integrated moving average (<i>Econometric model</i>)
BigTech	Big technological companies
CFA	Chartered Financial Analyst
CIAC	“Credit information analysis center” credit bureau LLC
CIR	Cost to income ratio
CPI	Consumer price index
DSGE	Dynamic stochastic general equilibrium model
DSTI	Debt service-to-income
EBRD	European Bank for Reconstruction and Development
ESG	Environmental, social, and governance
FATF	Financial Action Task Force
FRS	Federal Reserve System (USA)
FSB	Financial Stability Board
GDP	Gross domestic product
GS	Government securities
HLA	High liquid assets
IFI	International financial institutions
IFRS	International Financial Reporting Standards
IMF	The International Monetary Fund
IPO	Initial Public Offering
JSC	Joint-stock commercial
JSCB	Joint-stock commercial bank
JSCMB	Joint-stock commercial mortgage bank
JSICB	Joint-stock innovation commercial bank
JSO	Joint-stock organisation
LCR	Liquidity coverage ratio
LLC	Limited Liability Company
LTV	Loan-to-value ratio
MIDAS	Mixed-data sampling (<i>Econometric model</i>)
MM	Mass media
MUNIS	Clearing settlement system of the Central bank

NBCO	Non-bank credit organization
NFC	Near field communication
NPL	Non-performing loan
NSFR	Net stable funding ratio
OPEK+	The Organization of the Petroleum Exporting Countries
OPMS	Online price monitoring system
OTP	One time password
PJSB	Private joint-stock bank
PJSCB	Private joint-stock commercial bank
PMI	Purchasing Managers' Index
PPI	Producer price index
PSA	Production Sharing Agreement
PwC	"PricewaterhouseCoopers" international audit organisation
ROA	Return on assets
SDR	Special Drawing Rights
SupTech	Effective and high-tech control system in the Central bank
UN	United Nations
UZS	Uzbek soum
VAT	Value added tax
WLO	World Labour Organisation

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INTRODUCTION

In 2023, the activities of the Central Bank, on the one hand, were directed towards maintaining the inflation rate within the forecasted indicator amidst high investment and production activity in the economy, continued with financial support from the government, on the other hand, significant attention was given to sustaining the financial stability of the banking sector, ensuring that the financial system remained stable at an acceptable level despite the increasing costs of attracting external resources and the slowdown in global inflationary processes.

Since the first quarter of 2023, the downward trend of the inflation rate has made it possible to reduce the additional burden on policy rate in order to curb inflationary expectations in 2022. The policy rate was lowered from 15% to 14% and “**relatively tight**” monetary conditions maintained.

In 2023, the processes of adapting monetary policy mechanisms to the standards of inflation targeting regime were continued. In order to effectively regulate liquidity of the banking system and simplify processes of managing their own liquidity by commercial banks, a number of changes were made to the operating mechanism in cooperation with international financial institutions and consulting companies.

In particular, to improve the efficiency of liquidity management by redistributing the total liquidity of commercial banks, the practice of ensuring the opening of interbank money markets and REPO markets within 30 minutes after closing of bank payment day was implemented. Additionally, the use of monetary operations of the Central Bank within 1 hour after closing of the bank payment day were enforced.

To prevent liquidity disruptions in banks and ensure stable operating of payment system, intraday credit instruments and credit auctions for up to one week and overnight based on foreign exchange collateral were launched.

In order to minimize credit risk in the implementation of money-credit operations, the procedure for applying 5% discounts to collateral for liquidity providing operations will be implemented from 2024.

In 2023, changes in overall liquidity of the banking system led to an increased demand for the Central Bank’s operations to regulate liquidity, particularly in providing liquidity.

In 2023, commercial banks were supplied with liquidity through the Central Bank’s overnight REPO and overnight SWAP operations amounting to 279,3 trillion UZS and 50,9 trillion UZS, respectively. This represents an increase of 8 times and 5,8 times more than in 2022.

Due to a decrease in systemic liquidity in the banking system from August to November, outstanding bonds of the Central Bank, totaling 26 trillion UZS, were fully repaid in September.

The active utilization of monetary policy instruments by the Central Bank mitigated the impact of monetary factors on inflation. This effort facilitated the formation of the weighted average interest rate on operations conducted in the money market within interest rate corridor, averaging at 14,2% per annum. Consequently, the real interest rate formed within the range of 3,7-4,8%.

To mitigate the impact of non-monetary factors on inflation, weekly monitoring of prices was launched for 20 different types of consumer goods in the regional central markets. Additionally, operational monitoring of approximately 1 000 prices has been conducted through online monitoring system (OMS) by tracking the web pages of big supermarkets and online stores.

Regular updates on key consumer goods whose prices are anticipated to rise, along with results of price monitoring and corresponding proposals to address them, were consistently provided to the government.

The measures undertaken in monetary policy facilitated controlling high level of inflation, resulting in inflation reaching **8,8%** by the end of 2023.

The demand for bank loans in financing investment projects of the private sector remains high due to further improvement of business environment and limited sources of alternative financing.

In order to satisfy this increased demand and provide financial support to entrepreneurial activities, a total of 251,4 trillion UZS of credits were extended in 2023, (*24% increase compared to 2022*). As a result, outstanding credits reached nearly 497 trillion UZS.

An increase in the volume of extended loans was observed across all sectors of the economy in 2023. Outstanding loans in industrial sector (*10,7% increase*) reached 140,2 trillion UZS, in agriculture (*12,3% increase*) – 47,3 trillion UZS, in transport and communications (*15,7% increase*) – 34,3 trillion UZS, in trade and public catering (*12,5% increase*) – 32,5 trillion UZS, in construction (*18% increase*), totaled 12,3 trillion UZS.

Macroprudential policy of the Central Bank was directed towards maintaining financial stability of the banking system at an acceptable level amid ongoing uncertainty in the global economy and minimizing adverse effects of potential risks on capital and liquidity of banks.

In this regard, activities of banks were analyzed regularly using indicators developed with the support of World Bank experts and Financial Soundness Indicators of the International Monetary Fund. Stress tests were also conducted under various scenarios.

Furthermore, in order to mitigate adverse effects of non-performing loans on financial stability of the banking system and diminish their volume, loan portfolios of banks were routinely examined by banks, regions and segments. A vertical control system was also implemented, focusing on organization, coordination, and assessment of the activities of responsible individuals in regions.

Due to these measures, at the end of 2023, the proportion of non-performing loans in the total volume of loans in the banking system was maintained at the level of around 3,5%, (*3,6% recorded at the end of 2022*).

In order to effectively mitigate primary risks to the banking system and assess their impact on the financial health of banks, a system for analyzing the financial condition of the 50 largest borrowers within the banking system's loan portfolio was implemented.

Shortcomings in monitoring process were discussed during Board meetings of the Central Bank. Commercial banks were mandated to conduct regular monitoring of their **20 largest borrowers** and report the outcomes to the Central Bank.

Also, aligning the methodology of calculating capital adequacy with the standards of **The Basel Committee** was continued in 2023.

In the reporting year, legal base regulating the activities of non-bank credit organizations were improved, and relevant decrees of the President of the Republic of Uzbekistan were adopted in order to increase the share of microfinance services in developing entrepreneurship.

According to the decrees, increasing the size of the microfinance market and scope of services, enhancing the share of individuals in the resource base of microfinance organizations and broadening the level of coverage of individuals and business entities through supporting of self-employment and business development were determined as main objectives in 2024-2026.

Furthermore, in order to stimulate activities of microfinance organizations and create opportunities for them, microfinance organisations are allowed to attract loans in foreign currency from nonresidents, provide financial services in foreign currency to legal entities and conduct the activity of payment organizations after obtaining an appropriate license.

The maximum amount of microloans was increased from 50 to 100 million UZS. Moreover, comprehensive measures were delineated to establish microfinance banks offering fundamental banking services with the objective of fostering the microfinance services market in regions. Additionally, a mechanism was developed for transformation of microfinance organizations into microfinance banks.

In the reporting year, special attention was paid to aligning and improving regulations on licensing and regulating activities of payment system operators and payment organizations with international standards. Additionally, in order to manage risks in this area and ensure stable operation of payment systems, criteria for identifying an important payment system operator have been established.

Software of Clearing-settlement system was upgraded, a mechanism was implemented to levy intermediary fees (*utility payments, government duties and fines, payment for public services*) from recipients (beneficiaries). The practice of charging intermediary fees from households for processing these payments has been canceled.

Charging intermediary fees from recipients resulted in saving more than 85 billion UZS for individuals.

Through the mutual integration of the Humo and Uzcard ATM networks, conditions have been established for bank card users to utilize these ATMs interchangeably, facilitating complete access to cash withdrawal operations.

In 2023, the number of bank cards in circulation reached 46,2 million, marking a 35% increase compared to 2022. Moreover, the number of co-branded bank cards, enabling individuals to conduct payments using a single card across both domestic and international payment systems, rose by 1,7 times, reached 3,1 million units.

Cybersecurity measures aimed at preventing cases of fraudulent withdrawal of funds from bank cards arising in the process of payment systems are being strengthened.

In particular, additional security requirements have been introduced for the biometric identification of customers when transferring funds through mobile applications, confirmation of money transfers, and the use of mobile accounts. Utilization of these mechanisms assisted to prevent fraudulent operations associated with bank cards.

In turn, commercial banks and payment organizations commenced using multi-factor identification methods for their mobile applications, and warning clients about the non-disclosure of bank card information, OTP codes, and also provide recommendations on secure usage of their mobile applications.

In order to streamline automated generation of reports and information submitted by commercial banks to the Central Bank, as well as to facilitate remote monitoring of banks' activities, initiatives have been launched to analyze reports and electronic applications through SupTech projects.

During the reporting period, initiatives were undertaken to stimulate "green" financing, improve environmental conditions and encourage banks' participation in eco-friendly initiatives. "**Green Product**" loan was introduced to households to purchase solar photovoltaic stations, solar water heaters, wind generators and other devices.

For small and medium-sized business entities, **Green Energy Microloan** with simplified terms which designed to install solar panels and organize electric vehicle charging stations was introduced.

Special emphasis is paid on enhancing accessibility of banking services to all segments of individuals, including extension of compact and fully operational banking branches to areas previously underserved by banking facilities.

In pursuit of these objectives, the number of banking service points were expanded to 13 761. Moreover, in 2023, banks established an additional 286 banking service centers nationwide, 88 of these organised in areas previously underserved by banking facilities.

Efforts were continued on protecting rights of consumers of banking services, improving financial literacy of individuals and financial inclusion.

The report encompasses comprehensive details on the above-mentioned and other measures implemented in the banking system during 2023, as well as performance of tasks assigned to the Central Bank in accordance with the current legislation.

I. INTERNAL AND EXTERNAL MACROECONOMIC CONDITIONS IN 2023

1.1. Formation of internal economic conditions

1.1.1. Factors of financial support to the economy

In 2023, due to strict external financial conditions, the increase in the volume of loans, fiscal expenditures and private investments became one of the factors supporting the economy from the demand side.

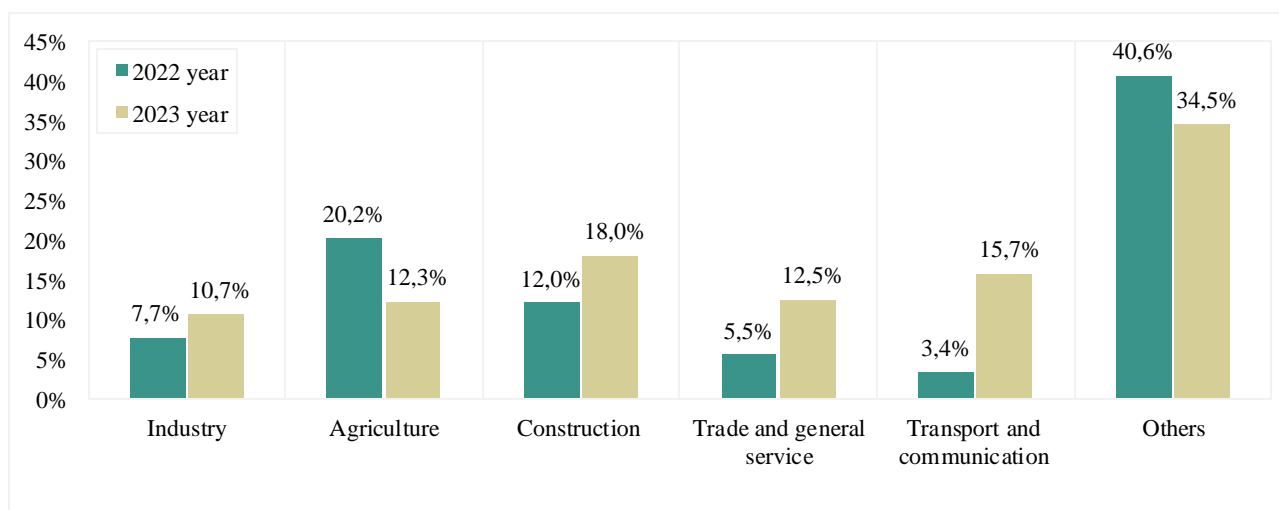
In particular, in 2023, **251,4** trillion UZS was extended to finance the economy, marking an increase of nearly **24%** compared to 2022. Outstanding loans reached to almost 497 trillion UZS.

The balance of extended loans to **individuals** surged by 47,0% compared to 2022, reached **148,2** trillion UZS. Meanwhile, the balance of extended loans to **business entities** increased by 15.3%, totaled **348,5** trillion UZS.

The increase in the share of loans to individuals in allocated loans is explained by the increase in the volume of microloans, mortgages and autoloans due to simplification of loan allocation processes and expansion of remote banking services.

Figure 1.1.1.1

Growth in outstanding loans to sectors of economy



Source: Central Bank data

In 2023, an increase was observed in the volume of outstanding loans across all sectors of the economy, amounting in industrial sector (*10,7% increase*) **140,2** trillion UZS, in agriculture (*12,3% increase*) **47,3** trillion UZS, in transport and communication sector (*15,7% increase*) **34,3** trillion UZS, in construction (*18% increase*) **12,3** trillion UZS, and in trade and public catering (*12,5% increase*) **32,5** trillion UZS.

The rapid growth of **private investments** is also an important factor in supporting economic development.

In particular, the volume of investments disbursed from all sources of financing in the economy increased by **22,1%** in real terms compared to 2022, and reached **352,1** trillion UZS. Herein, the volume of non-centralized rose by **26,2%** to **307,3** trillion UZS, while **centralized investments** decreased by **0,7%** to **44,8** trillion UZS.

Table 1.1.1.1

Changes in investments in fixed capital by sources of financing,
in billion UZS

Sources of financing	2022 year	2023 year	Change, %
Total investment	269 857,5	352 064,1	22,1
Centralized investments	41 548,1	44 806,8	-0,7
Republican budget	20 910,1	20 447,0	-11,4
Fund for Reconstruction and Development	2 447,9	1 554,2	-42,0
Foreign loans guaranteed by the Republic of Uzbekistan	15 256,5	21 153,4	30,3
Non-centralized investments	228 423,6	307 257,3	26,2
Own funds of enterprises	84 513,9	84 936,4	-2,7
Foreign direct investment and loans	97 095,4	166 731,4	56,2
<i>including,</i>			
<i>direct foreign investments</i>	<i>37 006,3</i>	<i>84 311,6</i>	<i>96,4</i>
Public funds	25 738,1	33 321,7	8,9
Loans of Commercial banks	21 076,2	22 267,8	17,9

Source: Preliminary data of Statistics Agency

In the reporting year, the share of **non-centralized investments** in the structure of sources of financing of disbursed investments increased from 84,6% to 87,3% in 2022, while the share of **centralized investments** decreased from 15,4% to 12,7%.

The growth of non-centralized investments was formed due to the increase of volume of foreign direct investments by almost **2,0 times** and the rise of commercial banks' loans and other debt funds by **17,9%**, and **9%** increase in individuals' funds.

Although centralized investments experienced minimal real growth compared to the previous year, **foreign loans guaranteed by the government** rose by **1,3 times**.

In 2023, although a slowdown in global inflationary processes was observed, the implementation of programs aimed at preventing the occurrence of imbalances in the economy due to high resource prices in the international financial market required sustained financial support to the economy by the government.

Fiscal and monetary policies were mutually coordinated by conducting a relatively tight monetary policy in order to reduce the pressures of pro-cyclical fiscal policy on inflation.

Particularly, expenditures from the state budget and special funds surged by 18% compared to 2022, reached 324,0 trillion UZS. Within this, 42,3% expenditures were allocated to social sphere, 13,2% to economic support, and 9,1% to production and infrastructure development programs.

The overall fiscal deficit to GDP ratio in 2023 rose from 4% in 2022 to 5,5%.

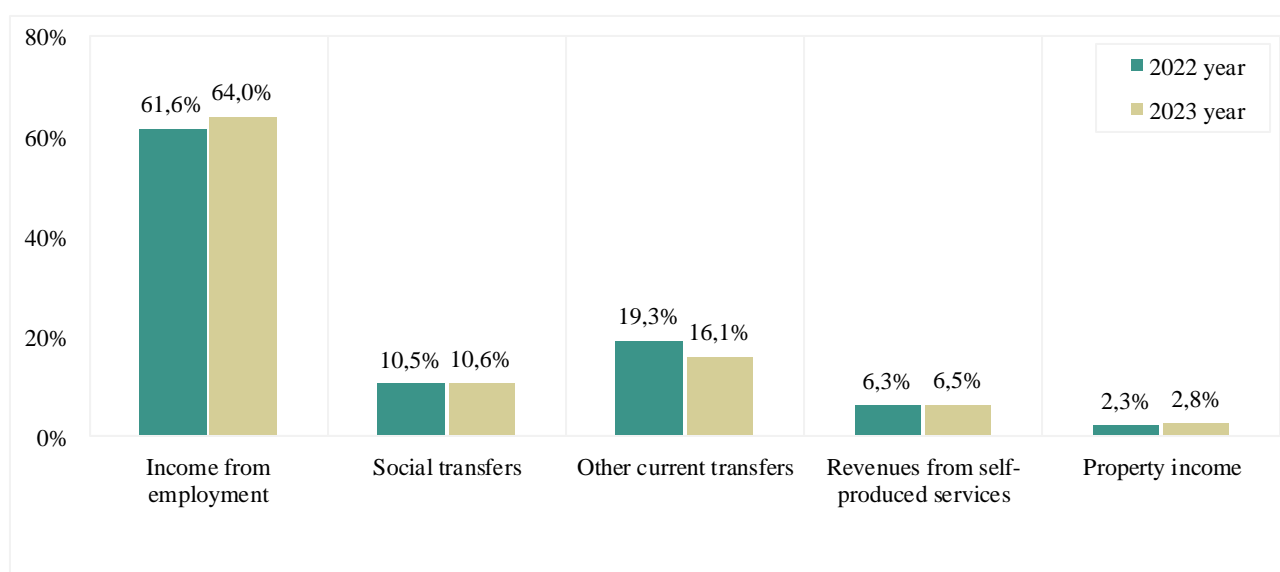
Government programs aimed at diversifying the income sources of the households, along with initiatives to raise wages and social benefits, played a significant role in driving growth in total income of individuals.

The increase in general income of households rose the demand for consumption and served to increase household consumption in the economy by 6.1%.

The total income of households in real terms indicated a **4,6%** surge compared to 2022, reached **728,8** trillion UZS in 2023. This increase primarily stemmed from a **6,6%** rise in average real wages across both public and economic sectors, alongside a **1,2-fold** increase in social transfers and labor income, respectively.

Figure 1.1.1.2

Sources of income of households



Source: Preliminary data from Statistics Agency

In the structure of households' income, labor activities constituted the largest share – **64%**, and **54%** of these incomes stemming from self-employment. Additionally, **income from property** surged by 40% compared to 2022, while income from self-produced services for personal consumption saw an **18,5%** increase.

The proportion of other current transfers in the total income of households showed a relatively declining trend, due to the return of **cross-border remittances** to their historical dynamics.

The overall growth in household incomes, on the one hand, supports consumer demand, but on the other hand, it contributes to increased inflationary pressure in the economy due to widening gap between aggregate demand and supply.

1.1.2. Production activity and labor market

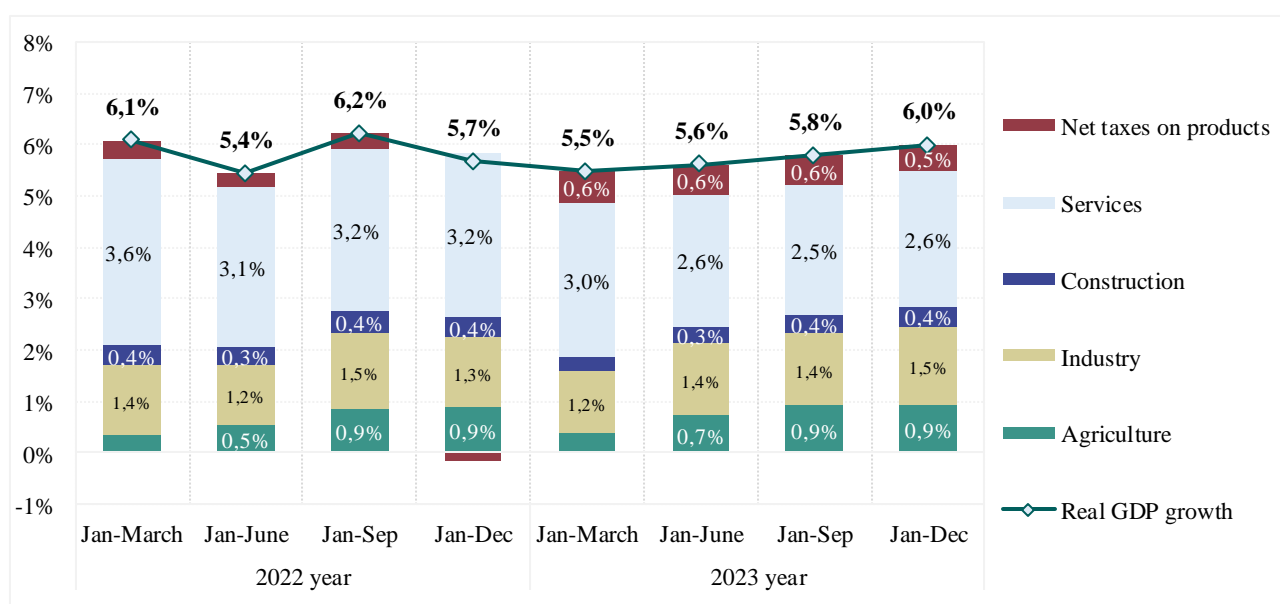
In 2023, increased investment activity, adjustments in energy tariffs, and measures taken to mitigate the impact of energy supply shortages on business activity facilitated maintaining high GDP growth.

In 2023, nominal GDP reached **1 066,6** trillion UZS, economic growth accelerated from 5,7% in 2022 to **6,0%** due to increased production activity and aggregate demand.

The **service sector** contributed **2,6%** to the **6,0%** GDP growth, followed by **industry** with **1,5%**, **agriculture** with **0,9%**, and **construction** with **0,4%**.

Figure 1.1.2.1

Contribution of economic sectors to GDP growth



Source: Central Bank calculations based on Statistics Agency data.

The main drivers of sustainable economic growth in 2023 were **service sector**, which grew by **6,8%**, and **industrial sector**, which saw a growth rate of **6,0%**. Additionally, agricultural production increased by **4,1%**, and the volume of construction work grew by **6,4%**.

The significant increase in investments in manufacturing sector, coupled with heightened demand in the domestic market due to external geopolitical instability, facilitated **industrial sector's** remarkable growth.

While **production sector** accelerated its growth from 5,4% in 2022 to **6,7%**, **mining sector** experienced a slowdown from 1,9% to **1,0%**. Additionally, electricity, gas and steam supply chain decelerated from 13,5% to **9,7%**.

While mining industry sustained positive growth, there were declines in specific sectors such as, **oil production** decreased to **-2,3%**, **natural gas mining** to **-9,6%**, and **gas condensate mining** to **-6,9%**.

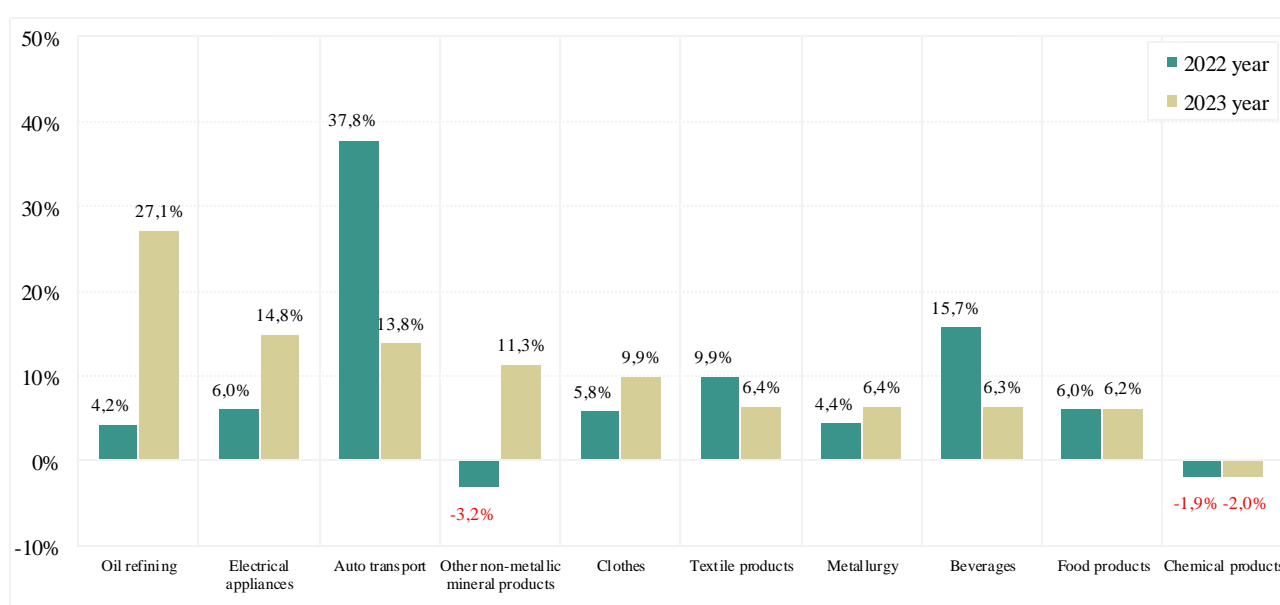
The increased demand for energy resources by economic entities led to a rise in import of these goods. This, in turn, served to mitigate adverse effects of the situation on economic activity while satisfying rapidly growing demand.

In 2023, there were increases in various components of production sector: **food production** rose to **6,2%**, **oil refinery** to **27,1%**, **metallurgy** to **6,4%**, **other non-metallic mineral products** to **11,3%**, and **electrical equipment** to **14%**.

Additionally, growth in **textile industry** slowed from 9,9% in 2022 to **6,4%**, **beverage industry** decelerated from 15,7% to **6,3%**, and **chemicals industry** experienced a decline of **2,0%**.

Figure 1.1.2.2

Dynamics of manufacturing production volume by industry



Source: Preliminary data from the Statistics Agency

The decline in **chemical industry** can be attributed to disruptions in energy sector and supply of certain raw materials, alongside a decrease in oil and natural gas production.

The stable growth of household incomes and introduction of new types of services into the market are evident in high growth rates of market services.

Communication and information services (24,6%), **financial services** (20,6%), **transport services** (8,0%), **trade** (10,2%), and **accommodation and food services** (12,6%) have demonstrated high growth rates, becoming the main drivers behind observed growth in the **services sector**.

The growth rate of **educational services** increased from 15,3% in 2022 to **22,8%**, **real estate services** rose from 11,1% to **13,3%**, and **medical services** saw a slight increase from 11,5% to **11,6%**.

The high growth of **financial services** was stemmed from several factors, including increasing competition in the banking services market, expansion of digital banking services and the improving financial literacy of individuals.

The growth of **communication and information services** comes from government programs aimed at training specialists in ICT, attraction of international companies specialized in digitalization and increasing demand for digital services from businesses.

In **agriculture**, husbandry rose from 3,8% in 2022 to **4,2%**, while livestock production increased from 3,3% to **3,7%**.

The production volumes of grain crops increased from 4,7% in 2022 to **5,5%**, while the production of vegetables rose from 2,9% to **3,5%**. However, the production rates fruits (4,1%) slowed down compared to last year.

In **livestock** production, growth in beef and poultry production accelerated from 3,4% in 2022 to **3,9%**, while production of dairy products (2,9%), eggs (4,4%), and fish (7,3%) maintained stable growth indicators.

The active participation of the private sector in utilizing agricultural land, such as implementation of a lease system for agricultural activities through competitive selection, along with extensive integration of science and innovation in the sector, and the market-driven pricing of agricultural products, contributed to fostering stable growth rates within the industry.

Specialized construction work experienced remarkable growth, with a **35,0%** increase compared to 2022. Additionally, **construction of civil facilities** saw an accelerated growth rate, rising from 2,7% in 2022 to **5,1%**, while **construction of buildings and structures** slightly slowed down, reached **3,8%**.

In 2023, **large enterprises** accounted for **30,2%** of the total volume of construction work, while **small enterprises and micro-firms** contributed **45,8%**.

The growth of construction sector was influenced by the provision of mortgages to individuals on preferential terms, the expansion of financing for infrastructure projects, and the implementation of new construction projects.

In 2022, growth rate of **consumer goods** production declined from 20,7% to **7,3%**, **food** production decreased from 9,6% to **6,2%**, and **non-food** production dropped from 28,1% to **7,8%**. This trend can be attributed to the demand for these goods reaching a stable phase, following significant growth in the production of consumer goods in preceding years.

As a result of increased economic activity, volume of trade rose steadily in 2023, volume of **retail trade** increased by **9,1%** compared to 2022 and volume of **wholesale trade** rose by **12,1%**.

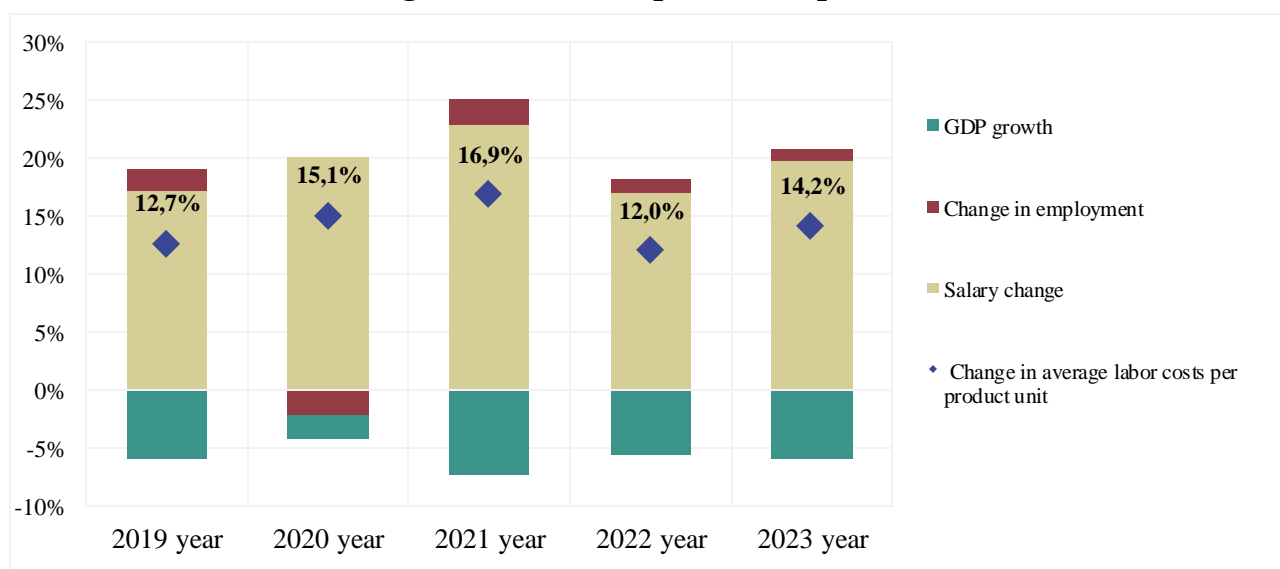
The labor market developed under conditions of heightened demand for highly qualified workforce, driven by increased level of digitalization in economic sectors.

In particular, **the unemployment rate** decreased from 8,9% in 2022 to **6,8%**, and the **number of people employed in the economy** reached **14,2** million (2,2% increase compared to 2022).

24,2% of total employed population are working in **agriculture**, **13,0%** in **industry**, **10,8%** in **construction**, **11,2%** in **trade**, **4,5%** in **transportation and storage**, **9,2%** in **education**, and **5,0%** in **health care and social services**.

Figure 1.1.2.3

Change in labor costs per unit of production



Source: Central Bank calculations based on Statistics Agency data.

Over the past five years, labor costs per unit of production averaged **14,2%**, maintaining a steady growth trend. Specifically, labor costs increased by 12,0% at the end of 2022 and by **14,2%** in 2023. During the reporting period, a 19,6% increase in wages and a 1,2% increase in employment contributed to the rise in average labor costs per unit of output, while a 6,0% increase in GDP contributed to their decrease.

Box 1

Labor market trends

The impact of various shocks occurring in the world on the labor market is taking different shapes. Due to slower adaptation of labor market in relation to imbalances in aggregate demand and supply, it is necessary to pay special attention to analyzes in development of macroeconomic policy measures.

As of January 1, 2024, the population of Uzbekistan indicated 36,8 million people. In recent years (2020-2023) growth rate of population accelerated to 2,1% (700-800 thousand people in absolute terms).

For comparison: in 2010-2019 the average growth rate was 1,7% or 500-600 thousand people.

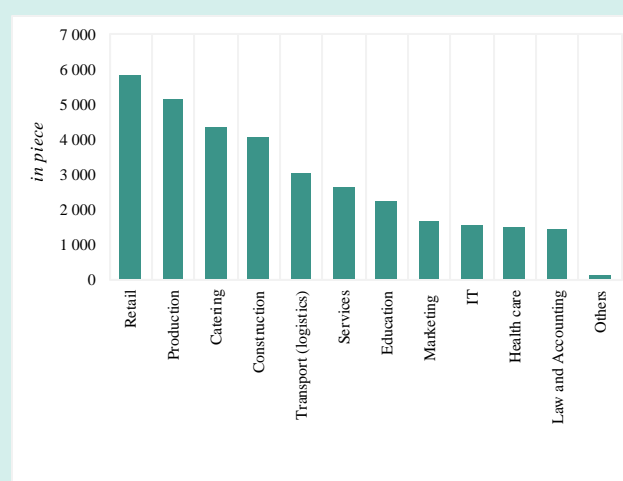
Substantial portion of the population (57%) falls into working-age population. However, since 2010s, proportion of the working-age population has gradually declined. This trend is attributed to demographic shifts, notably the increase in birth rates from 2000s to the present. Consequently, this indicates both a short and medium-term increase in the demographic burden and, in the long term, require a greater focus on job creation.

Economically active population in Uzbekistan exhibited positive trend over the past decade. In 2022, active population comprised approximately 15 million (an increase of 1 million individuals compared to 2016) people (41,7% of the total population). This difference reflects growing reserve of human capital.

The labor market situation remains relatively stable. In the first half of 2023, unemployment rate showed 8,1%. Labor supply (the number of job searches) continued to grow steadily throughout the year. Simultaneously, there was a high level of interest in public civil service positions through the platform of vacant positions of civil servants.

Figure 1

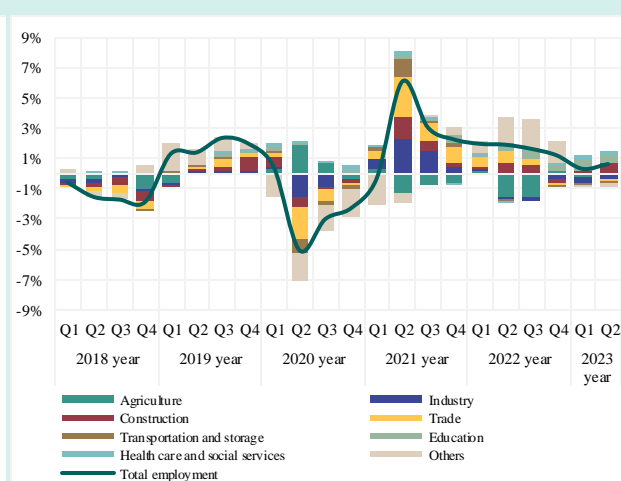
Number of vacancies by economic sectors



Source: Central Bank calculations based on open data

Figure 2

Employment growth rate



Source: Central Bank calculations based on Statistics Agency data

In December 2023, the demand for labor, as indicated by open data exceeded 49 thousand. The majority of vacancies were concentrated in the fields of retail trade (5,8 thousand), manufacturing (5,1 thousand), public catering (4,3 thousand), and construction (4 thousand) (Figure 1).

However, according to the latest data, growth rate of employment slowed compared to 2022. By the end of the first half of 2023, the number of employed individuals totaled 13,9 million, representing a 0,7% increase compared to the end of the same period in 2022 (Figure 2).

Specifically, there was a decline in the number of people employed in the industry and transportation sectors, while there was a notable increase in the workforce within the construction, education, and healthcare sectors.

In 2023, average nominal wage in the economy reached 4,6 million UZS, marking a 17% increase compared to the previous year. Notably, wages experienced significant growth in the fields of information and communication (+40%), transportation and storage (+37%), trade (+26%), and finance (+23%).

Due to structural changes in the economy (*a decrease in the share of agriculture in GDP and an increase in service sector*), a high demand for skilled labor in some sectors, as well as an increase in real wages in recent years against stimulating fiscal policies, real wage growth has outpaced labor productivity, causing production costs (*ULC – unit labor cost*)¹ to increase. In 2023, it was observed that labor productivity in the construction, trade and transportation sectors lags behind wage growth. This trend observed in the labor market creates a certain upward pressure on prices.

External labor migration

Labor migration processes affect general income of the population, domestic demand and stability of the balance of payments through channel of remittances. In 2018-2023, nearly 16% of total income of individuals was derived from remittances of labor migrants.

The main flow of current labor migration is concentrated in several nearby countries, in particular, Russia and Kazakhstan, which constitute majority of remittances. At the same time, processes of geographical diversification are observed in these streams.

After an atypical flow of remittances in 2022 (2,1 b.), their level stabilized in 2023. The share of remittances from Russia decreased from 85,5% in 2022 to 77,8% in 2023 due to high volatility of ruble against USD dollar, increased inflationary processes, and a slight reduction in migration flows.

¹ *Unit labour cost (ULC) - measures the cost of labour per unit of output produced.*

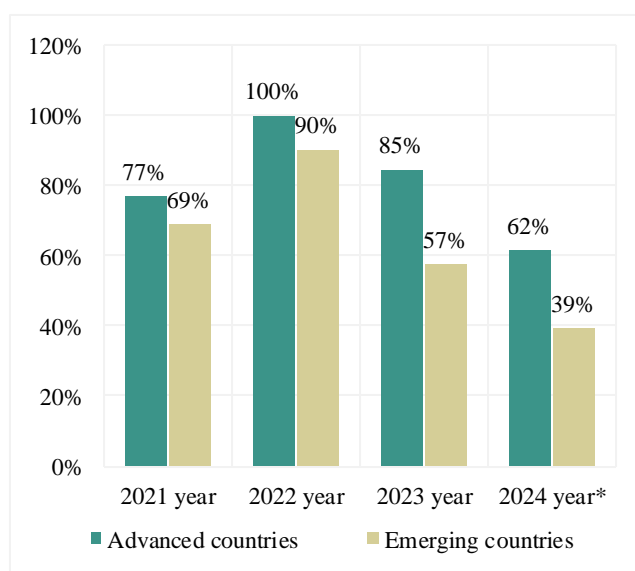
1.2. Formation of external economic conditions

In 2023, the global economy has entered its “stabilized volatility” period – a period of new traditional uncertainties. This, in turn, is manifested by growing influence of geopolitical processes on the economy – inflation, disruptions in supply chains, changes in the structure of budget expenditures, and changes in other trends.

According to **the International Monetary Fund**, global economic growth in 2023 slowed by **0,3 p.p.** compared to 2022, reached **3,2%**². Herein, **economic growth** in advanced countries declined from 2,6% in 2022 to **1,6%** (*-1,0 p.p.*), while in emerging countries, this figure accelerated from 4,1% to **4,3%**.

Figure 1.2.1

Share of countries that failed to achieve inflation target

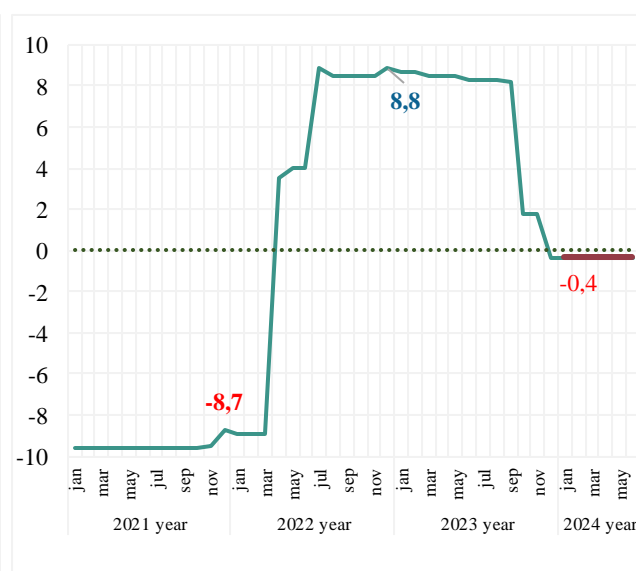


The number of countries that have switched to the inflation targeting regime is 74, including advanced countries + Eurozone – 13, emerging countries – 61.

*Inflation forecast for 2024 is taken from the IMF survey.

Figure 1.2.2

Global monetary policy index



Source: Global Monetary Policy Tracker

*global monetary policy index greater than 0 means tightening monetary policy by Central banks, and less than 0 means easing.

Measures to curb inflation globally led to a slowdown in **global inflation** from 8,7% in 2022 to **6,8%** (*-1,9 p.p.*). In advanced economies, inflation decreased from 7,3% to **4,6%** (*-2,7 p.p.*), while in emerging economies, it declined from 9,8% to **8,3%** (*-1,4 p.p.*).

Although Central banks have succeeded in slowing inflation, most regulators failed to achieve their inflation targets.

² International Monetary Fund. 2024. *World Economic Outlook – Steady but Slow: Resilience amid Divergence*. Washington, DC. April.

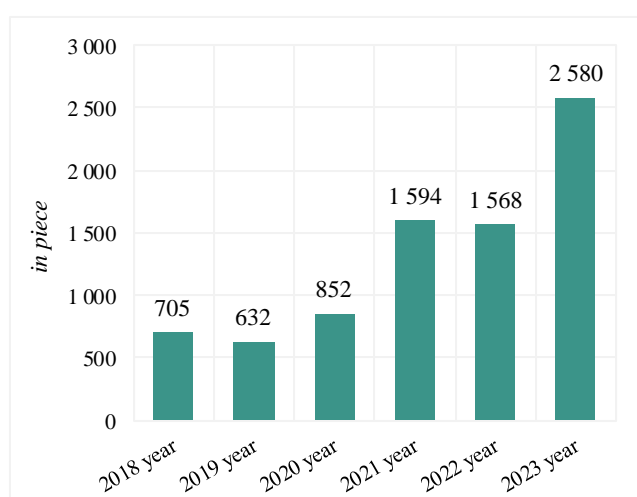
According to estimations, in 2022, **92%** of countries that adopted inflation targeting amidst global uncertainties failed to achieve their targets, this figure constituted 100% for advanced countries and 90% for emerging countries. In 2023, this indicator showed **62%**, with developed countries at **85%** and developing countries at **57%**.

*For your information: In 2024, the proportion of countries missing their inflation targets is projected to be **43%**, with **62%** for advanced countries and **39%** for emerging countries.*

Overall, global tightening monetary policy that began in April 2022 concluded by September 2023. According to the Global Monetary Policy Tracker, the global monetary policy index was **-0,4** at the end of 2023 and is expected to remain stable during the first half of 2024, indicating that monetary policy will continue in easing phase.

Figure 1.2.3

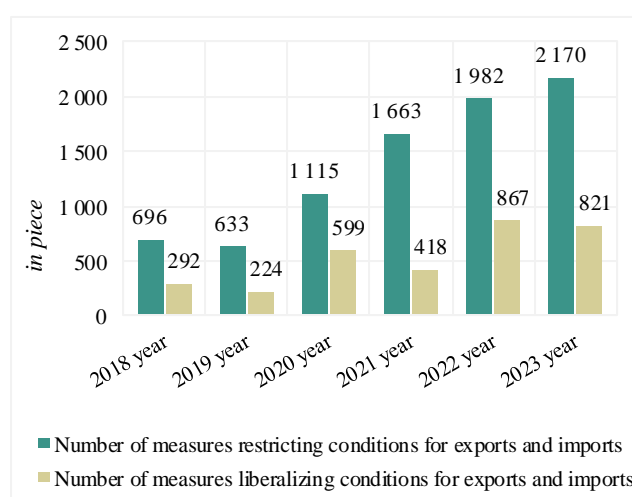
Number of industrial policy measures adopted



Source: Juhász, R., Lane, N. J., Rodrik, D. (2023), "The new economics of industrial policy" (No. w31538), National Bureau of Economic Research.

Figure 1.2.4

Number of measures affecting terms of global trade



Source: Global Trade Alert

Intensifying geopolitical division - fragmentation creates the risk of the world economy splitting into separate blocs, that is, the risk of geo-economic division.

Simultaneously, it is observed that countries of the world are switching to industrial policy (*production of import-substituting goods*) due to confrontation. In particular, in 2023, more than 2,5 thousand or 1,6 times more measures related to the transition to industrial policy were recorded compared to 2022³. Industrial policy is actively used in large economies, and almost half of the adopted measures (48%) are being leveraged by China, European Union and the United States.

³ Evenett, S.; Jakubik, A.; Martín, F.; Ruta, M. (2024), 'The Return of Industrial Policy in Data' IMF Working Paper No. 2024/001

Box 2

Fragmentation losses

The IMF conducted an assessment of economic losses resulting from global division into eastern, western, and neutral blocs¹. In a tight scenario, emerging countries within the neutral bloc are projected to experience the greatest losses. Specifically, median developed economy is anticipated to incur losses amounting to approximately **0,9%** of national income. Conversely, median developing country in Asia may face losses up to **80%**, while South Africa up to **120%**. The Middle East and Central Asia up to **150%**. Thus, geopolitical fragmentation disproportionately affects countries with smaller economies.

As per EBRD analysts, the economic ramifications of implementing a friend-shoring policy (*where supply chains are established with foreign policy allies*) may result in a reduction equivalent to **4,6%** of global GDP². The IMF projections indicate that the fragmentation of global trade could lead to losses amounting to 7% of global GDP³. Another research by the IMF suggests that dividing the world economy into three blocs (*eastern, western, and neutral*) could result a 57% decrease in trade volume between these blocs, with eastern bloc projected to incur significant losses (*the median country within this bloc could lose up to 3,4% of its national income*)⁴. Another IMF study underscores that such fragmentation tends to elevate overall prices and heighten volatility in commodity markets across the global economy⁵.

¹Hakobyan, S.; Meleshchuk, S.; Zymek, R. (2023), 'Divided We Fall: Differential Exposure to Geopolitical Fragmentation in Trade,' IMF Working Paper No. 2023/270

²Javorcik, B, L Kitzmüller, H Schweiger and M Yildirim (2022), 'DP17764 Economic costs of friend-shoring,' CEPR Discussion Paper No. 17764. CEPR Press, Paris & London.

³Bolhuis; M., Chen, J.; Kett, B. (2023), 'Fragmentation in Global Trade: Accounting for Commodities,' IMF Working Paper No. 2023/073

⁴Campos, R. G., Estefanía-Flores, J., Furceri, D., & Timini, J. (2023). 'Geopolitical fragmentation and trade,' Journal of Comparative Economics, 51(4), 1289-1315.

⁵Alvarez, J.; Andaloussi, M. B.; Maggi, C.; Sollaci, A.; Stuermer, M.; Topalova, P. (2023), 'Gеоeconomic Fragmentation and Commodity Markets,' IMF Working Paper No. 2023/201

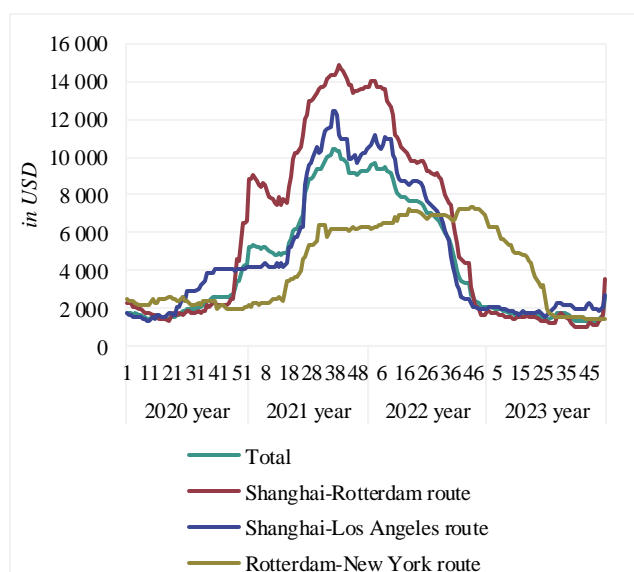
Import and export restrictions represent the primary instruments employed by countries transitioning to industrial policy⁴. Specifically, in 2023, measures aimed at restricting export and import conditions totaled 2,200, marking a **9,5%** increase compared to 2022. Furthermore, the number of measures aimed at liberalizing foreign trade conditions decreased from 867 in 2022 to **821** in 2023.

In 2023, as a result of escalation of geopolitical tensions in the Middle East, it was observed restrictions on transport and logistics corridors and therefore resulted in an increase in the cost of delivery. In particular, the cost of shipping a 40-foot container by water increased from \$2,1 thousand at the end of 2022 to **\$2,7 thousand** or **1,3 times** at the end of the reporting year.

⁴ Juhász, R., Lane, N. J., Rodrik, D. (2023), 'The new economics of industrial policy (No. w31538),' National Bureau of Economic Research.

Figure 1.2.5

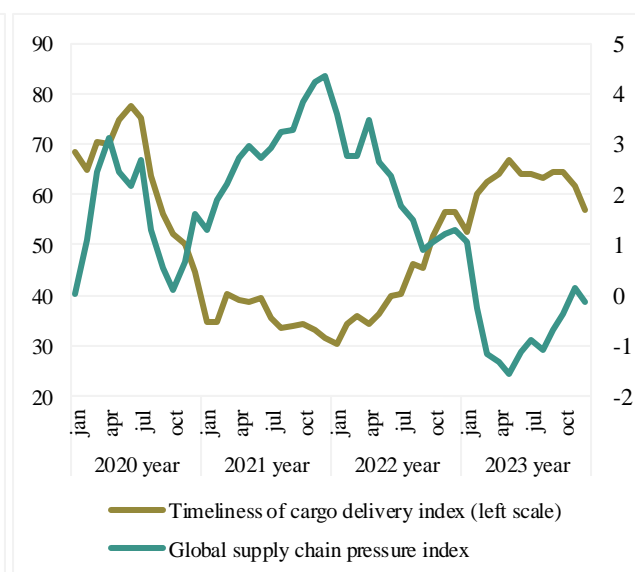
Cost of shipping a 40-foot container by water, weekly dynamics



Source: Drewry.co.uk

Figure 1.2.6

Supply chains and transportation related metrics



Source: New York Federal reserve bank, Sea Intelligence

The sharp growth rate was mainly due to the increase in the cost of delivery in the corridors connecting the East and the West. Particularly, the cost of delivery in Shanghai-Rotterdam route increased by 2 times, totaled \$3,6 thousand compared to 2022, and in Shanghai-Los Angeles route rose by 1,4 times, amounted to \$2,7 thousand.

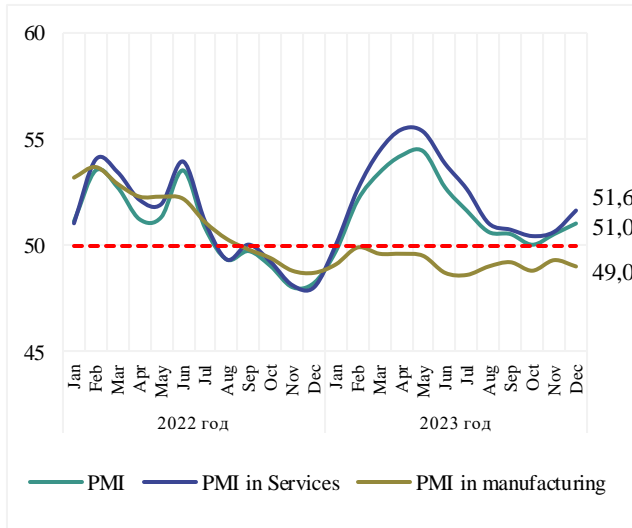
In 2023, due to lower pressure on delivery service by demand side, global supply chain pressure index formed at a low level and indicated **-0,15** (1.3 in 2022). by the end of the year

In turn, since October 2023 (*the Middle East conflict*), a decrease was observed **in index of on-time delivery of cargo** by water transport, It dropped from the highest 66,8 in May 2023 and to **56,8** (-10 p.) at the end of the year.

In the reporting year, PMI index, **reflecting global economic activity**, improved until May 2023 after a negative trend (*below 50*)⁵ in 2022, and then entered a declining phase. In particular, PMI index increased from 48,2 in 2022 to **51,0** in 2023, in service sector it rose from 48,0 to **51,6**, while in manufacturing this indicator formed below 50, surged from 48,7 to **49,0**.

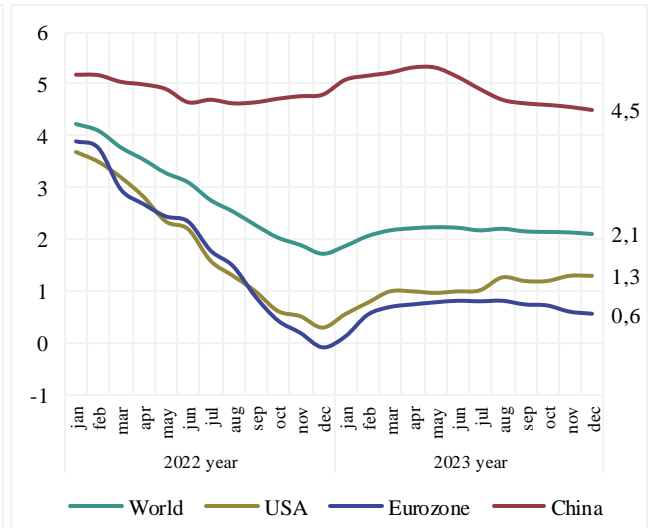
⁵ When the value of PMI index is above 50, it reflects improvement of business activity, and when it is below 50, it reflects deterioration of the economic situation.

Figure 1.2.7
Dynamics of global PMI index



Source: IHS Markit

Figure 1.2.8
Economic Expectations Index
(for the next 12 months)



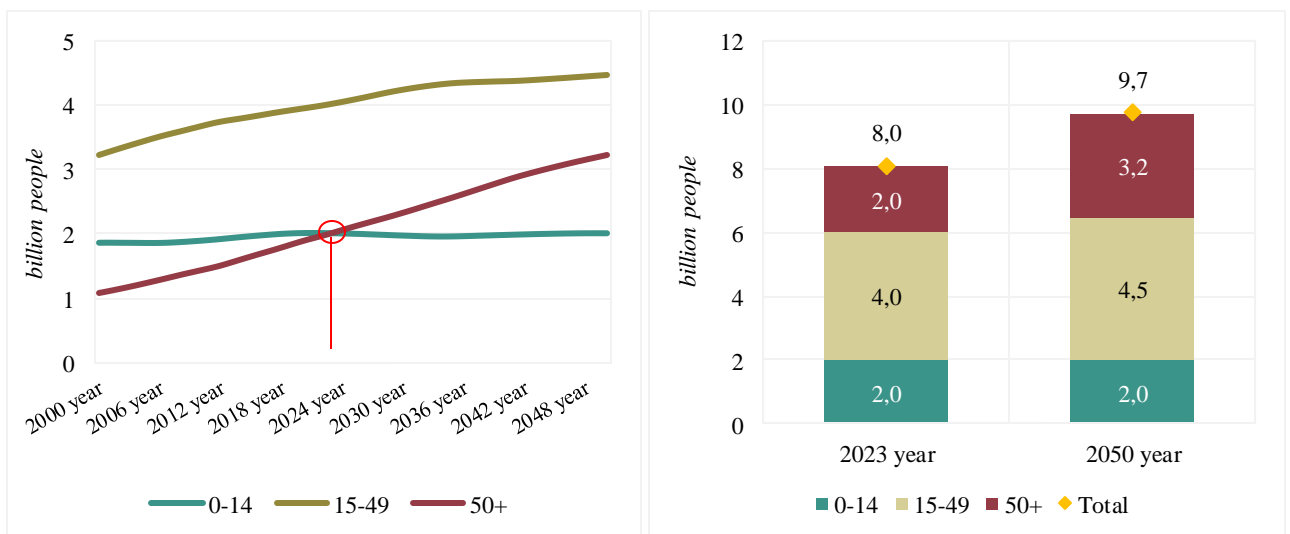
Source: MacroMicro

Global economic expectations for the end of 2023 formed optimistic, increased to **2,1** from 1,7 in 2022. However, in China, this figure declined slightly by 0,3 p.p. compared to 2022, totated **4,5**. In the United States, economic expectations rose from 0,3 in 2022 to **1,3**. Conversely, in European Union, amidst recessionary conditions in certain economies, expectations remained relatively pessimistic, amounted to **0,6**.

Demographic trend. According to the UN, in 2023, for the first time, the global population aged 50 and over surpassed individuals under 15, exceeding **2 billion** people.

World population, by age group

Figure 1.2.9

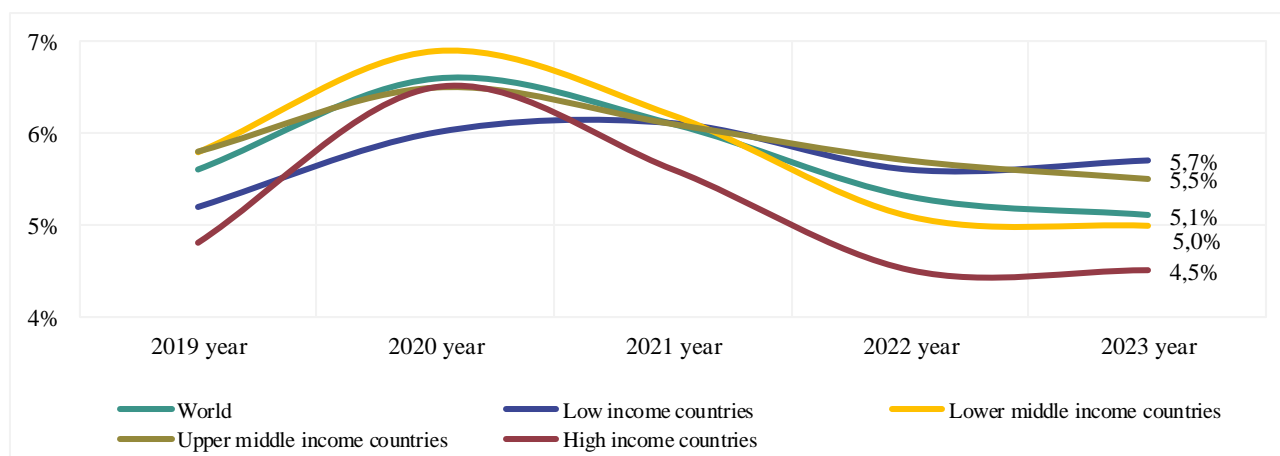


Source: UN data

According to the UN demographic forecast, by 2050, the number of children is projected to stabilize at around 2 billion people, while the population aged 50 and above will increase to **3,2 billion**, which is **1,6 times** higher than the number of children. The growth of the world's population is primarily influenced by declining mortality rates and rising life expectancy, rather than by increasing birth rates.

Figure 1.2.10

Unemployment rate 2019-2023 (countries by income group)



Source: WLO data

Box 3

Interregional “migration” of consumer market

The increase in share of the individuals aged 50 and older is especially noticeable in consumer segment. If total population of the world increases by 0,6 billion from 2023 to 2030, consumer layer will **double** from 1,3 billion to **4,8 billion** people. Almost half of them are 50 and older.

According to World Data Lab review, in the 2000s global middle class was mainly “western”, by 2030 it will be mainly “eastern”, that is, population of Asian countries. This makes Asia the largest consumer market by both volume and spending, and consumption growth serves as a key driver of economic growth both in the region and globally. By 2040, China and India, along with Indonesia, Bangladesh, Vietnam, Pakistan and Iran will also be among leaders in terms of growth of consumer group aged 50 and older.

According to AARP, contribution of 50 and older group to global GDP was 34% in 2020 and it will reach 36% in 2030, and 39% by 2050. This group's spending on goods and services will drive one-third of the world's jobs, rising to 38% by 2050 and accounting for 60% of global spending.

¹ Consumer class includes people who have opportunity to purchase goods and services other than basic necessities, and who spend \$12 or more per day (based on 2017 purchasing power parity).

² American Association of Retired Persons is a US non-profit organization that advocates for health, financial, labor market and other interests of population over 50 years of age.

³Global Longevity Economy Outlook: The economic contribution of people age 50 and older. AARP.

World labor market. In the reporting year, unemployment rate in advanced and some emerging countries approached their lowest levels in the past decade. According to preliminary data from the WLO, global unemployment rate in 2023 constituted **5,1%**⁶. Specifically, unemployment rate was 4,5% in high-income countries, 5,5% in upper-middle-income countries, 5,0% in lower-middle-income countries, and 5,7% in low-income countries.

In the reporting year, labor markets also experienced tightening trends, indicating labor shortages. According to a survey by Bank for International Settlements in 2023, nominal wages globally increased significantly (*approximately 8%*) compared to pandemic period. However, in real terms, wages declined (*about 7,5%*⁷).

1.2.1. Changes in economies of Uzbekistan's main trading partner countries

In the reporting year, Uzbekistan's main trading partners exhibited stable economic growth trends, driven by accelerated consumer activity, increased production rates oriented towards domestic demand, and adaptation to evolving external shocks.

Russia's economy grew by **3,6%** in 2023, following a contraction of 1,2% in 2022. This economic growth was driven by consumption and investment demand. In the reporting year, real incomes of individuals increased by 4,6%. The relatively soft monetary policy of the Bank of Russia in the first half of the year, along with benefits provided under government programs, contributed to a rise in consumer activity.

Also, due to the industrial policy implemented in Russia, production sectors oriented to domestic demand served as a main driver of economic growth. Specifically, manufacturing industry expanded by 7,0% in 2023. Key areas of growth included a 32,8% increase in the production of computer, electronic, and optical equipment, a 27,8% rise in metal products, and a 25,5% growth in the production of vehicles and equipment.

China's economic growth accelerated from 3% in 2022 to **5,2%** in 2023. The moderation of pandemic-related restrictions initially boosted domestic consumption, the average annual growth in retail trade turnover reaching 10,8% in January-April. However, by the end of the year, this growth moderated to **7,4%**.

Furthermore, investments in real estate continued to decline, with a decrease of **9,6%** in 2023 (*compared to 10% decline in 2022*). Nonetheless, the rapid recovery of the services sector played a crucial role in driving China's economic growth in the reporting year.

⁶ World Employment and Social Outlook: Trends 2024. Geneva: International Labour Office, 2024.

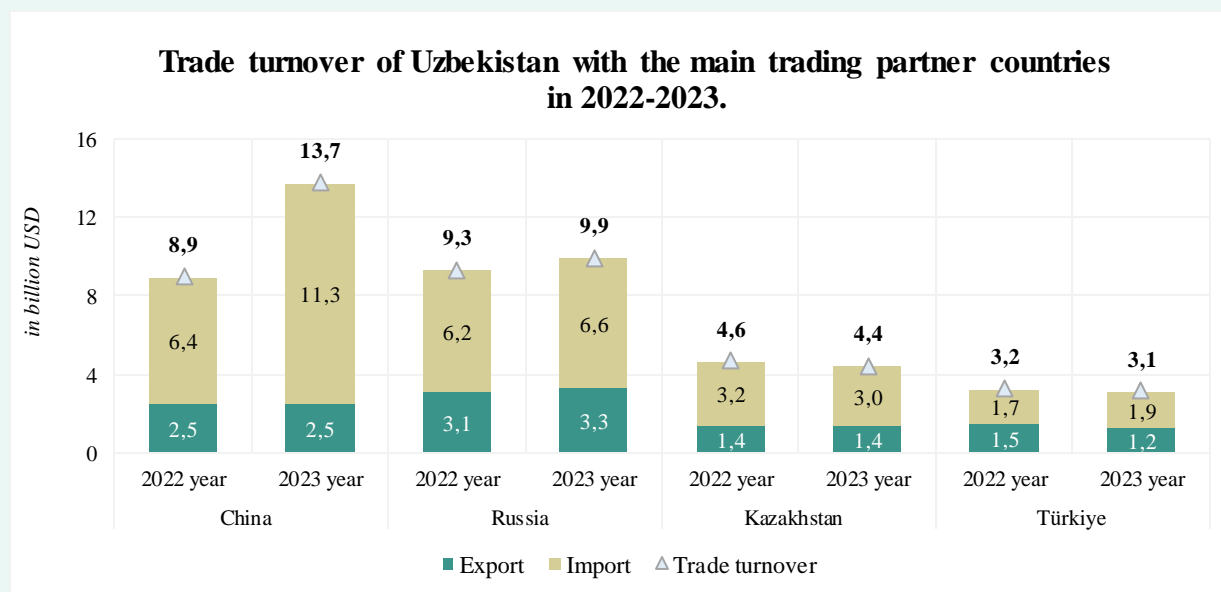
⁷ Doornik, B., Igan, D., Kharroubi, E. (2023), 'Labour markets: what explains the resilience?' *BIS Quarterly Review*, 77.

Box 4

Main trading partner countries of Uzbekistan

In 2023, Uzbekistan's foreign trade turnover reached **\$62,6 billion**, marking an increase of **25,1%** compared to 2022, in this, export of goods and services rose by **26,5%** to **\$24,4 billion**, while import grew by **24,2%** to **\$38,1 billion**.

The trade turnover was predominantly with China (21,9%), Russia (15,8%), Kazakhstan (7%), and Türkiye (5%), comprising a combined share of **49,7%** of the total trade turnover in 2023 (compared to 52,1% in 2022).



Source: Preliminary data from Statistics Agency

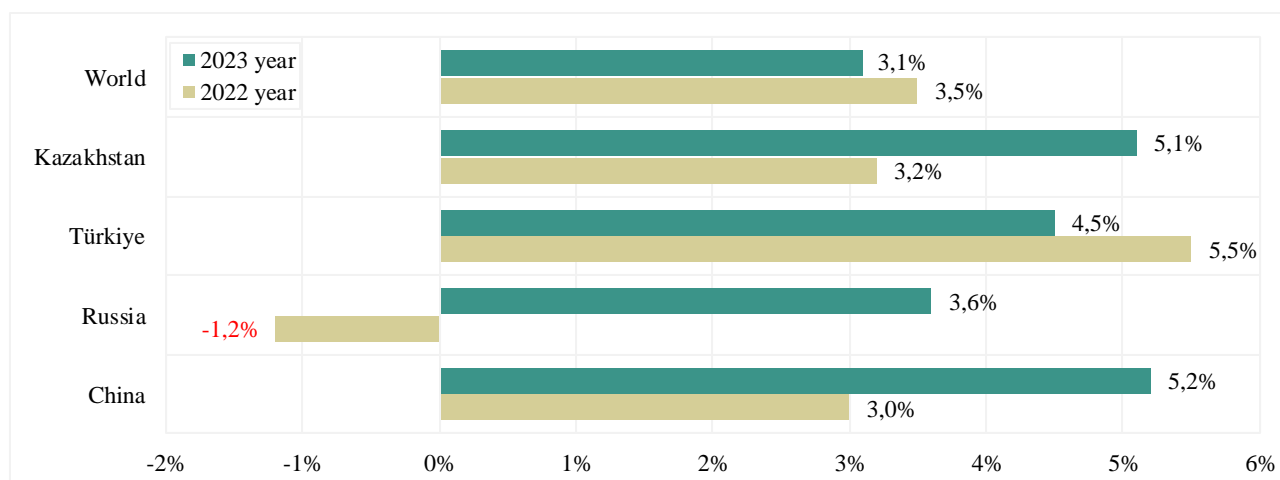
In the reporting year, trade turnover with China amounted to **\$13,7 billion**, which is **1,5 times** greater than in 2022, with Russia – **\$9,9 billion** (an increase of 6,5%), and with Kazakhstan and Türkiye the volume of trade decreased compared to 2022 and amounted to **4,4** (-4,8%) and **3,1** (-3,9%) billion dollars, respectively.

In particular, in 2023, growth rate of service sector increased from 3% in 2022 to **5,8%**, with growth of transportation and storage services from 0,7% to 8%, accommodation and food services from -2,8% to 14,5%, financial services – from 3,1% to 6,8%.

Türkiye's economic growth slowed to **4,5%** in 2023 (5,5% in 2022). Despite natural disasters early in the year that resulted in estimated losses of \$104 billion, and amidst tight monetary policies implemented by the Central Bank of Türkiye, economic activity surpassed expectations due to increased domestic consumption and government spending. Additionally, downward trend of unemployment rate (from 10,2% in 2022 to 8,8% in 2023), contributed to higher-than-expected economic performance.

Figure 1.2.1.1

Dynamics of economic growth in the main trading partner countries



Source: The IMF data

In 2023, economic growth in **Kazakhstan** reached **5.1%**, marking an acceleration of 1,8 p.p. compared to 2022. The main drivers of this growth were trade (1,88 p.p.), followed by industry (1,26 p.p.), and construction (0,70 p.p.).

In the reporting year, increase in production supply in response to growing demand, while maintaining tight monetary policy in the main trading partner countries of Uzbekistan, allowed to curb inflation, and inflation rate in **Russia** reached 7,4% (in 2022 – 11,9%), in **Kazakhstan** – it was 9,8% (20,3%).

China encountered deflationary trends due to weakened consumer sentiment and an imbalanced surge in manufacturing supply, resulted in a negative inflation rate of **-0,3%** in 2023 (-1,8% in 2022).

Due to escalating inflationary pressures in **Türkiye**, implementation of tight monetary policy measures maintained the inflation rate at approximately **64%**, consistent with the level observed in 2022.

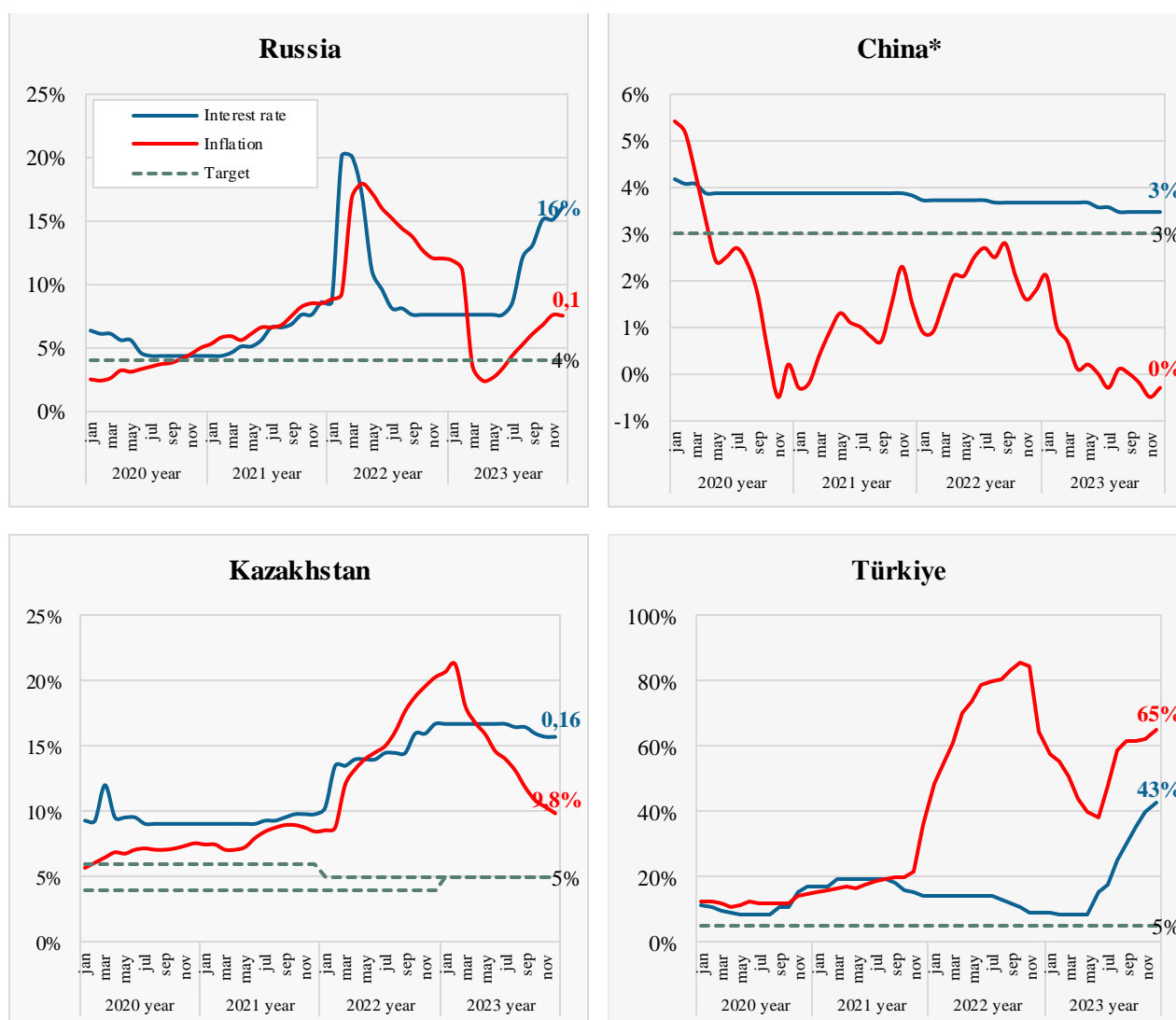
In the reporting year, Central banks of partner countries implemented monetary policies tailored to their respective domestic economic conditions.

Specifically, the Bank of **Russia** maintained policy rate unchanged at **7,5%** during the first half of the year. However, starting from the second half of the year in response to elevated inflation expectations, the bank proceeded to adjust the policy rate five times, ultimately setting it at **16%** per annum by the end of 2023.

The Central Bank of **Kazakhstan** maintained the key interest rate at 16,75% for nearly 9 months. However, It eased monetary policy in the fourth quarter due to slowing inflation and expectations and decreased policy rate to **15,75%** at the end of the year.

Figure 1.2.1.2

Annual inflation and interest rates in main trading partner countries



Source: Data from Central banks of trading partner countries

*China does not have an official inflation target, but inflation rate of 3% is considered acceptable.

The Central Bank of **Türkiye** initiated a tight monetary policy cycle in 2023 following 27 months of easing. Throughout the year, regulator increased the policy rate by 3 400 basis points, ultimately setting it at **42,5%** per annum.

Chinese regulator lowered policy rate from 3,65% to **3,45%** in order to stimulate consumption and improve conditions in the real estate market.

In the reporting year, national currency of Kazakhstan strengthened against US dollar by **1,7%**, following a depreciation of 7,2% in 2022. In contrast, Russian ruble depreciated by **27,5%** against US dollar. (5,3% appreciation in 2022).

Throughout 2023, exchange rate of Chinese yuan against US dollar remained stable, depreciated by **1,7%** (9,2% in 2022).

In the reporting year, Turkish lira depreciation against US dollar accelerated and constituted 57,2% (53,0% in 2022).

1.2.2. Changes and expectations in global economy and global commodity markets

In 2023, according to World Bank estimates, **global trade** volumes decreased from 5,6% in 2022 to 0,2%, marking the lowest level in the past 50 years (*excluding crisis periods*)⁸. This slowdown was mainly related to decrease in trade of goods (-2,2%), which occurred due to contraction in some advanced economies and decline in emerging countries, as well as a sharp slowdown in growth of global industrial production (0,7%).

Global trade growth is forecasted to reach **2,3%** in 2024, amid improvements in global industrial production.

Figure 1.2.2.1

Growth of global trade and industrial production in 2020-2023

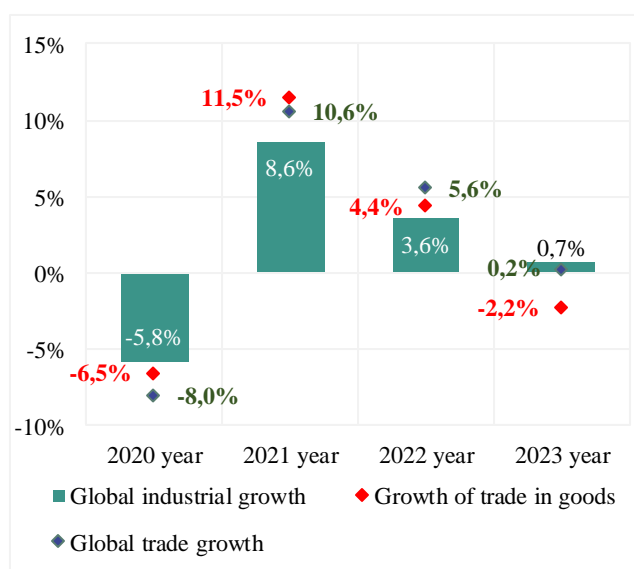
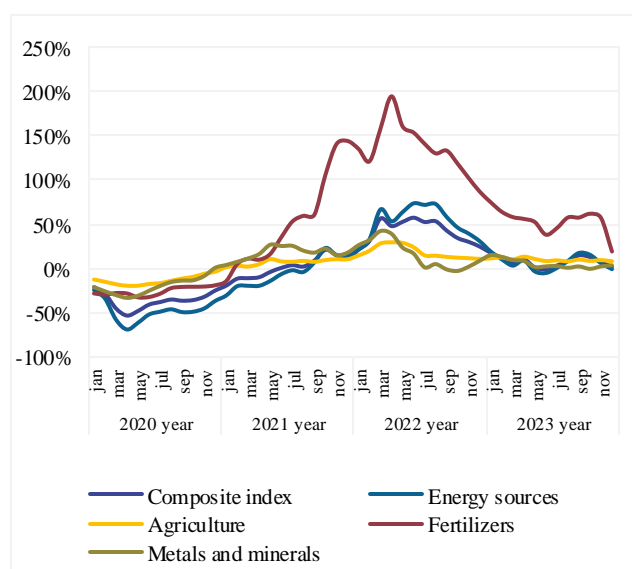


Figure 1.2.2.2

Changes in prices for main commodities in 2020-2023, 2010=100



Source: World Bank data

In 2023, prices for most raw materials in global market declined due to weakened demand. Specifically, main raw material price index decreased by **24,2%**, following an increase of 41,3% in 2022. Significant reductions were observed in prices for fertilizers (-34,9%), energy sources (-29,9%), grain products (-11,5%), and base metals (-11,0%).

Oil prices experienced volatility throughout 2023, influenced by conflicts in the Middle East. Prices fell from an average of \$99,8 per barrel (Brent) in 2022 to **\$82,6** per barrel in 2023.

⁸ World Bank. 2024. *Global Economic Prospects, January 2024*. Washington, DC.

Oil prices are anticipated to decline to **\$81** per barrel in 2024, due to low level of global economic activity and ongoing slowdown in China's economy. However, an escalation of conflict in the Middle East could also lead to a significant increase in oil prices.

Table 1.2.2.1

Changes in average prices for main raw materials in 2020-2023.

№	Product name	2021 year	2022 year	2023 year	2023/2022, in %
1	Energy				
	Oil (Brent), <i>USD/barrel</i>	70,4	99,8	82,6	-17,2
	Coal, <i>USD/mt</i>	128,9	292,7	145,9	-50,1
	Natural gas, <i>USD/million BTU</i>	10,0	23,4	7,8	-66,5
2	Agriculture				
	Wheat, <i>USD/t</i>	298,4	405,9	299,1	-26,3
	Sugar, <i>USD/kg</i>	0,4	0,4	0,5	26,6
	Cotton, <i>USD/kg</i>	2,2	2,9	2,1	-26,9
3	Base metals				
	Copper, <i>USD/mt</i>	9 317,1	8 822,4	8 490,3	-3,8
4	Precious metals				
	Gold, <i>USD/roy ounce</i>	1 799,6	1 800,6	1 942,7	7,9
	Silver, <i>USD/roy ounce</i>	25,2	21,8	23,4	7,4

Source: World Bank data; *mt – metric ton; BTU – British Thermal Energy

In 2023, natural gas and coal prices saw substantial declines as European countries reduced energy demand and maintained high gas reserves above 90%. Specifically, the average price of natural gas dropped to **\$7,8** (-66,5%), while coal prices decreased to **\$145,9** (-50,1%). Natural gas prices are projected to continue their decline in 2024, driven by increased production and export of natural gas.

Base metal prices experienced an **11%** decline in 2023, primarily due to weakened demand from advanced economies, including China, which constitutes 60% of global metals consumption.

Metal prices are anticipated to further decrease in 2024 before increasing in 2025. This outlook is influenced by the stabilization of China's real estate sector and heightened demand for metals crucial to the transition toward a green economy (*copper and nickel*).

Box 5

Greenflation

One of the primary factors contributing to inflation in recent years has been substantial rise in energy prices. This trend stems from several factors, including rapid rebound in global demand following pandemic, disruptions in supply chains due to geopolitical conflicts, reductions in oil production by OPEC+ countries, and low investments in the energy sector during 2020-2021.

However, while the energy shocks mentioned earlier are typically short-term in nature, the implementation of global climate policies could serve as a long-term driver of higher energy prices. According to the IMF, achieving global climate goal of limiting average temperature increases to below 2°C would require a carbon tax of approximately \$75 per tonne of CO₂¹. According to the IMF, this will lead to a serious increase in energy prices. In particular, by 2030 average price of coal will increase by more than 200%, natural gas – by almost 70%, electricity – by 45%, gasoline – by 15%. This rise in energy prices will, in turn, lead to persistent global inflation and require to maintain high interest rates for an extended period of time. This connection between the transition to green policies, rising energy prices and inflation was called **greenflation**; from the English green – “green” and inflation – “inflation”.

¹International Monetary Fund (IMF). 2019. Fiscal Monitor: How to Mitigate Climate Change. Washington, October.

Food prices decreased by **9,2%** in 2023 due to an increased supply of staple crops, particularly grains. Forecasts indicate that food prices will decline by about **1%** in 2024 and **4%** in 2025. Herein, several risks could cause food prices to rise, including increasing energy prices, climate-related challenges, trade restrictions, and uncertainty in the Black Sea region.

According to the IMF forecasts, the world economy is expected to maintain stable growth rates in 2024-2025, with global economic growth projected to be **3,2%**. Economic growth in advanced countries is anticipated to be **1,7%** in 2024 and **1,8%** in 2025, while emerging countries are expected to experience growth rates of **4,2%** during the same period.

According to optimistic the IMF forecasts, the global inflation rate is projected to be **5,9%** in 2024 and **4,5%** in 2025. In advanced economies, inflation rates are expected to be **2,6%** in 2024 and **2,0%** in 2025, while in emerging economies, the rates are projected to be **8,3%** and **6,2%** respectively⁹.

⁹ International Monetary Fund. 2024. World Economic Outlook— Steady but Slow: Resilience amid Divergence. Washington, DC. April.

1.3. Inflation processes and expectations

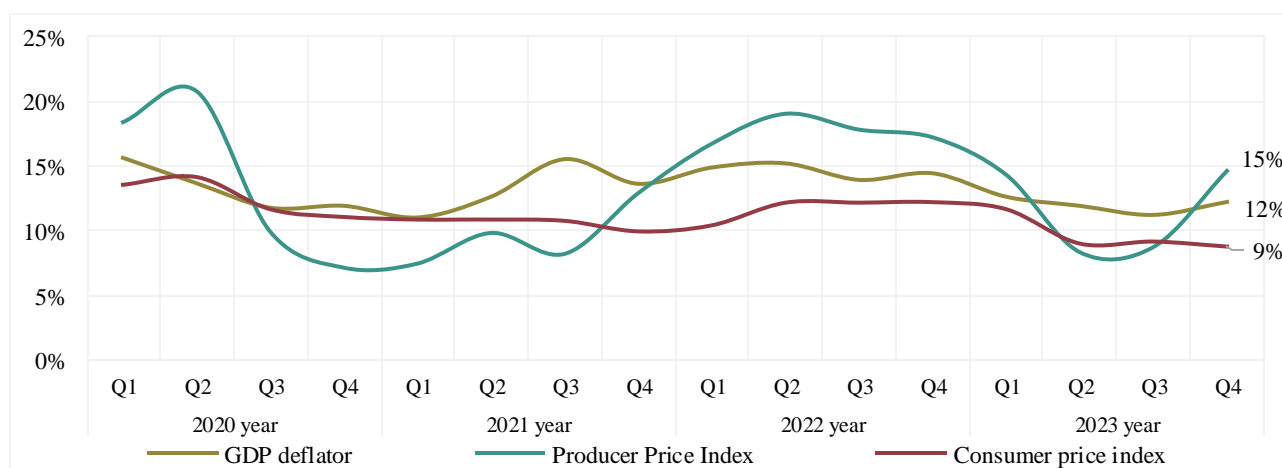
In the first half of 2023, the dynamics of overall inflation continued to decline, reaching to single digits. This process is attributed primarily to seasonal factors in agriculture, the dissipation of last year's high base effects, stable import prices, and unchanged regulated prices.

In the second half of the year, the inflation rate remained almost unchanged. This was primarily due to increases in the prices of fruits, retail services, automobile fuel, and changes in the prices of certain goods and services set administratively.

Figure 1.3.1

Dynamics of inflation indicators

(compared to the corresponding month of the previous year)



Source: Statistics Agency data

At the end of the year, overall inflation, (as measured by the consumer price index) amounted to 8,8%, compared to the beginning of the year, this indicator represented a decrease of 3,5%.

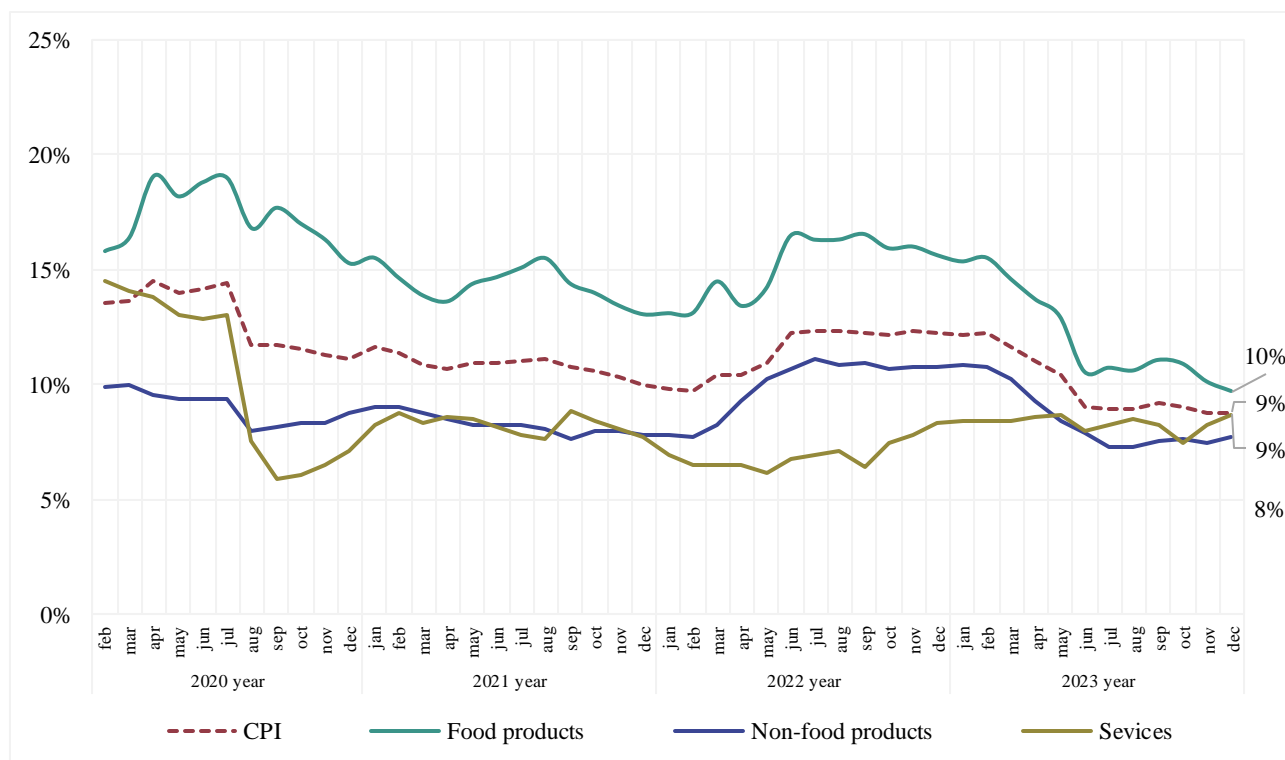
Also, changing trends were observed in the dynamics of the GDP deflator and the Producer price index (PPI). Following a decrease observed in the first half, it turned into an upward trend in the second half and at the end of the year these indicators reached 12,2% and 14,4%, respectively.

Despite a significant decrease in **food inflation** during 2023, its level remained high by the end of the year. This was attributed to increased prices for rice caused by water shortages, higher fruit prices due to damage to seedlings from abnormally cold weather at the beginning of the year, high prices for meat products, and rising public catering prices driven by continued high demand in the economy.

During the year, the stabilization of external prices led to a decrease in the cost of key imported products, particularly wheat flour and vegetable oils, that prevented a significant increase in prices within this product group.

Figure 1.3.2

Dynamics of the main components of the CPI,
(compared to the corresponding month of the previous year)



Source: Statistics Agency data

In 2023, price growth for **non-food products** remained relatively low. Additionally, inflation in this group was influenced by restrictions imposed by trading partners on gasoline exports, which led to increased prices for fuel and, consequently, for transport services.

The impact of exchange rate changes in the second half of the year reflected in the prices of clothing, medicines, personal care and cleaning products, and household appliances.

In turn, the downward trend in commodity prices on the world market, the recovery of cross-border transport and supply chains were a restrainer for the growth of import inflation.

In 2023, a downward trend was not observed in **service** inflation. In particular, rising prices for household services, passenger road, air, and rail transportation, as well as for water supply, heat energy, and recreation and cultural leisure services, exerted upward pressure on overall inflation.

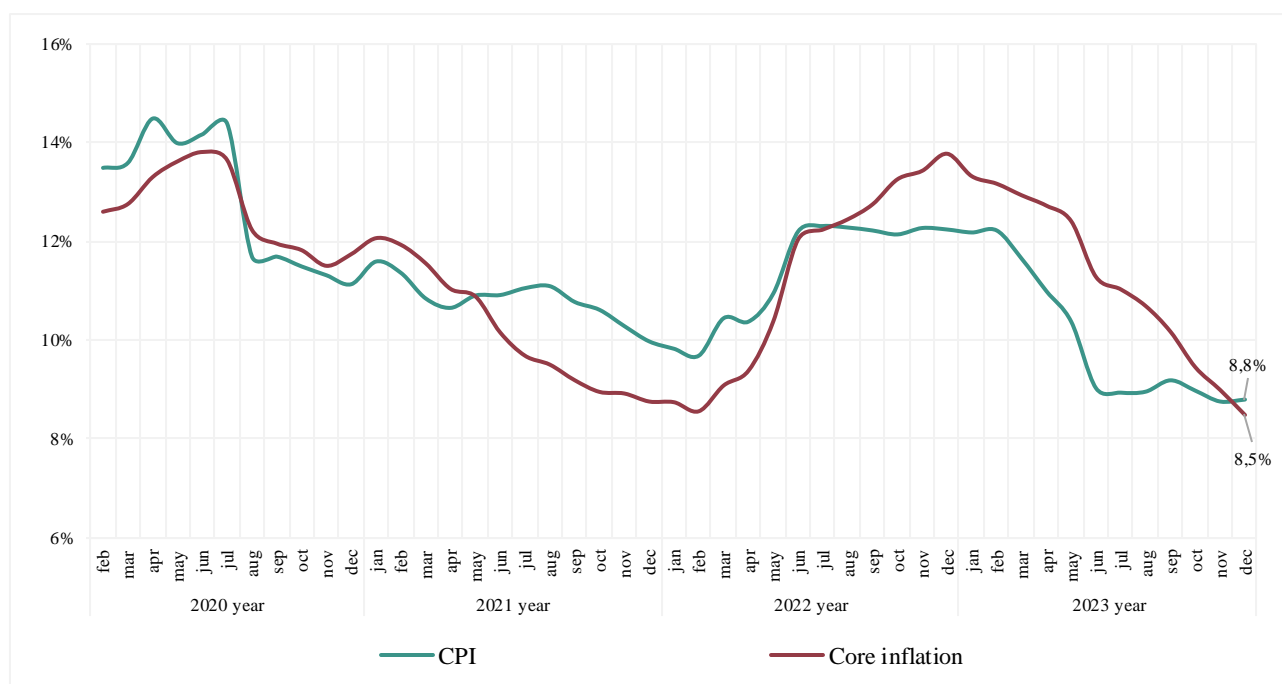
It is worthy noting that decreasing inflation in the services sector, especially in conditions of high consumer demand in the economy, will likely require a longer period of time.

Core inflation

During 2023, core inflation exhibited a downward trend, decreased by 5,3 p.p. compared to the beginning of the year, reached 8,5%. However, the rate of decline in core inflation was slower than forecasted at the beginning of the year.

Figure 1.3.3

Dynamics of general inflation and core inflation, (compared to the corresponding month of the previous year)



Source: Statistics Agency data

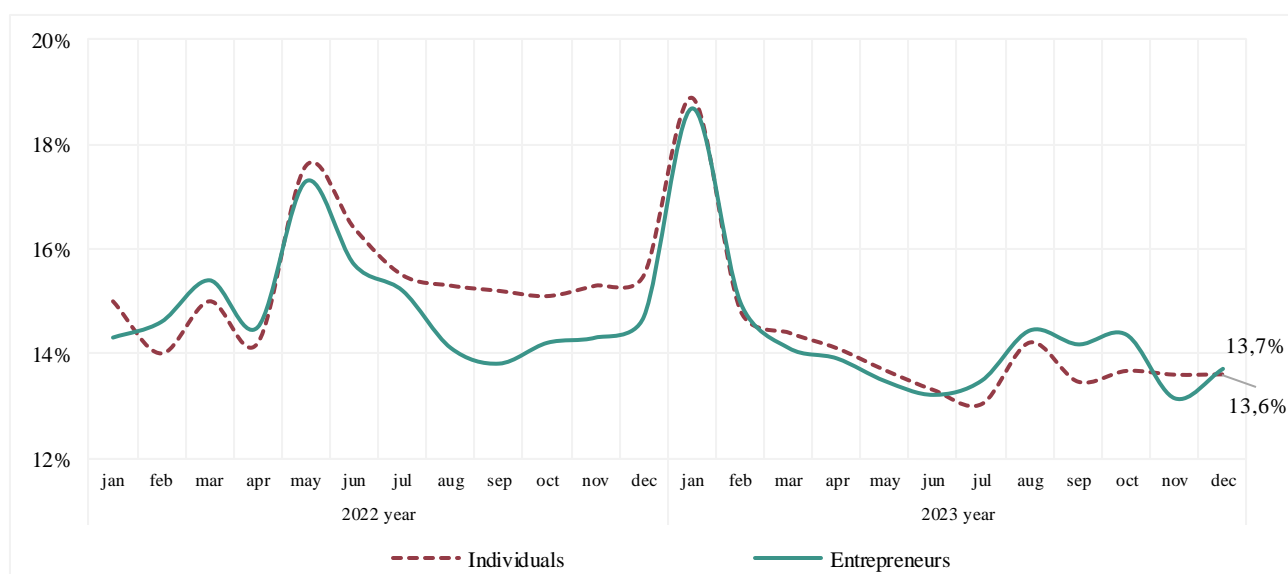
During this period, the decline in core inflation was contributed by, on one hand, exiting last year's high base effect from both food and non-food products, and on the other hand, decreasing external inflationary factors and ensured relatively tight monetary conditions. Conversely, escalating service prices was a contributing factor to the rise in core inflation.

At the same time, despite the observed positive trends, risks persist monetary factors that could exert pressure on inflation, particularly, high consumer demand, surpassing government spending than forecasted indicators, elevated demand for retail loans. These, in turn, continue to exert prolonged pressure on core inflation.

Inflation expectations

In 2023, a changing trend was observed in inflation expectations of individuals and business entities. Specifically, from February to July of the reporting year, there was a steady decline in the inflation expectations of economic entities, since August, these expectations have become more volatile.

Figure 1.3.4

Inflation expectations of individuals and entrepreneurs

Source: Central Bank calculations

At the end of the year, inflation expectations of individuals stood at 13,6%, while among business entities, they were slightly higher, reaching 13,7%.

Inflation expectations of individuals and entrepreneurs were primarily influenced by expectations regarding the exchange rate, energy prices, wages, and the growth of utilities.

Table 1.3.1

Inflation expectations of individuals (by sectors, in %)

Expectations	2023 year											
	January	February	March	April	May	June	July	August	September	October	November	December
Science/education	15,4	14,5	14,2	14,3	14,4	13,2	13,2	12,8	12,9	13,8	14,3	14,5
Medicine	16,7	14,2	14,2	12,9	11,8	12,8	12,5	13,2	13,0	13,3	13,1	13,6
Bank and finance	17,2	15,3	14,5	14,1	14,0	13,3	13,1	14,8	13,6	13,9	14,2	13,9
State organisations	16,7	14,9	14,6	13,5	13,6	13,5	12,7	14,0	13,6	13,0	13,9	13,1
Production	15,8	15,8	15,7	15,6	14,8	16,4	12,8	14,1	14,9	14,8	13,8	14,8
Agriculture	17,2	17,7	12,0	15,5	13,4	12,4	13,1	16,0	15,0	12,9	11,6	13,3
Construction	18,4	11,4	16,3	13,6	13,8	12,2	14,1	14,8	14,2	13,6	12,0	15,2
Cafe-restaurant	15,9	12,6	13,3	15,9	10,5	13,9	13,9	11,8	14,1	14,1	13,8	9,3
Household services	14,6	13,3	13,8	11,9	10,5	11,2	11,8	12,7	13,6	13,3	11,6	10,6
Transportation	16,9	12,3	14,2	13,4	11,0	11,6	13,7	15,0	12,7	10,7	11,1	12,7
Trade	14,8	12,8	14,4	15,1	13,1	13,1	14,4	13,4	12,8	16,5	13,3	13,1
Tourism	16,6	11,1	13,9	11,3	10,9	13,1	11,1	10,6	11,8	13,2	10,9	13,6

Source: Central Bank calculations

Table 1.3.2

Main factors of inflation expectations of individuals and entrepreneurs,
(share of respondents, %)

	2023 year											
	January	February	March	April	May	June	July	August	September	October	November	December
Individuals												
Changes in exchange rate	42	46	51	45	47	50	59	70	65	59	58	60
Increase in fuel and energy prices	47	45	36	31	32	33	36	43	45	49	43	47
Increase in wages and benefits	24	24	38	50	36	40	32	36	30	24	38	33
Increase in cost of utilities	22	27	24	21	21	22	32	27	34	36	38	37
Existence of monopolies in the market	35	37	39	40	36	38	31	33	32	31	31	31
Increase in costs of transportation	36	35	27	23	21	20	21	22	23	29	26	29
Entrepreneurs												
Changes in exchange rate	44	48	50	43	44	55	60	71	68	62	61	62
Increase in fuel and energy prices	38	46	33	29	30	32	37	38	42	47	40	42
Increase in cost of utilities	20	25	21	18	20	21	29	24	31	37	38	33
Increase in wages and benefits	21	25	34	41	36	39	33	30	29	24	37	34
Increase in transportation costs	38	46	33	29	30	26	25	25	28	32	29	30
High tax burden	18	23	19	21	18	21	20	18	20	20	19	24

Source: Central Bank calculations

Box 6

Trends in the real estate market of Uzbekistan

In 2023, high activity in housing market had a significant impact on prices growth. The residential rental market has been stable throughout the year.

At the end of 2023, housing price index in soum constituted 39,6% (*dollar index* – 26,9%) in primary market, while in secondary market, housing price indices in soum and dollar indicated 35,1 and 23,0 respectively. (Figures 1-2).

Increased demand amid high profitability and rising housing prices has led to some decline in housing affordability in recent years. In 2023, growth gap between nominal incomes and house prices increased from 4,4% in 2022 to 20% in 2023.

In terms of regions, high growth of housing prices was observed in the regions with better infrastructure, large and tourist centers (*Tashkent city, Tashkent, Andijan, Bukhara and Khorezm regions*) and housing price index in soums increased up to 40% in these regions.

Figure 1

Changes in primary housing market prices

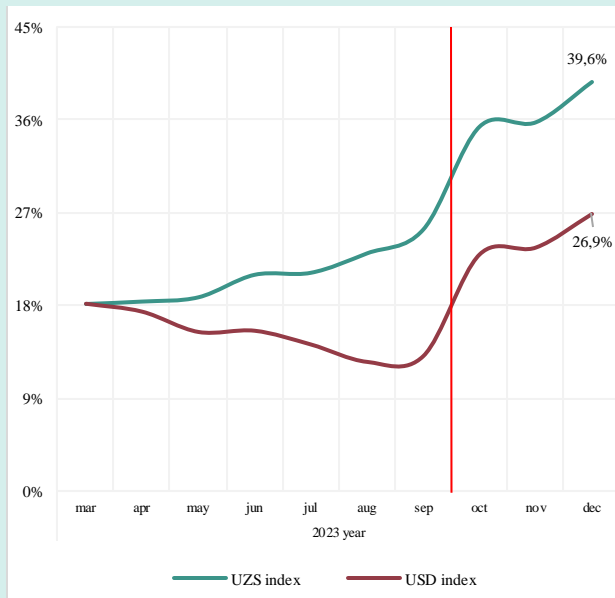
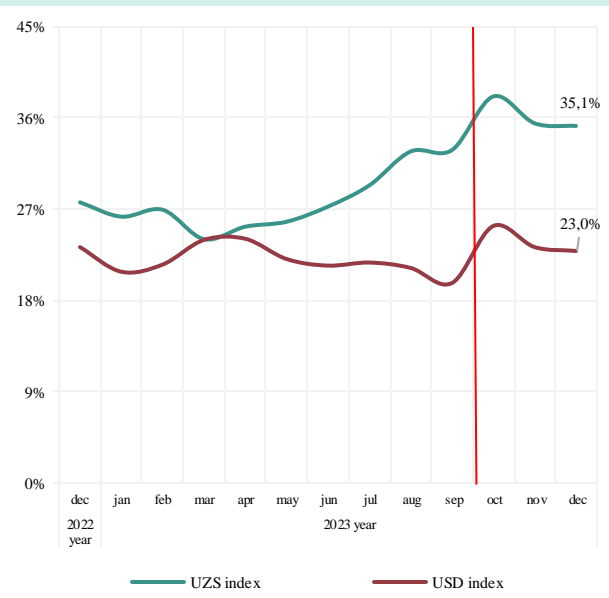


Figure 2

Changes in secondary housing market prices



Source: Central Bank calculations

In general, in 2023, a significant increase in prices in primary and secondary housing markets was observed due to high activity, and the number of housing transactions during the year constituted 335 thousand (4,4% increase compared to 2022) (Figures 3 and 4).

The high demand in the real estate market is mainly explained by high attractiveness of these assets compared to other investment and savings instruments.

Additionally, as a result of removal of effects of last year's external economic shocks and balancing domestic supply and demand, price index in soum increased by 8,8% in the residential rental market during 2023, while index in dollars decreased by 1% (Figure 5). The difference between household income and rent payment growth was negative (-5.2%).

Figure 3

Number of housing transactions



Table 1

Changes in the number of housing transactions by regions, annual change, in %

Region	2022 year		2023 year				
	Q4	Annual	Q1	Q2	Q3	Q4	Annual
Tashkent city	10%	6%	9%	8%	4%	-14%	0%
Tashkent region	-10%	-5%	-11%	12%	16%	5%	5%
Syrdarya region	10%	8%	-13%	18%	18%	-2%	4%
Jizzakh region	22%	20%	1%	22%	23%	-12%	5%
Samarkand region	2%	7%	1%	6%	15%	8%	6%
Fergana region	-3%	9%	-11%	6%	17%	-1%	1%
Namangan region	1%	12%	-2%	10%	30%	6%	9%
Andijan region	0%	5%	-4%	8%	20%	8%	6%
Kashkadarya region	7%	14%	-2%	11%	28%	21%	12%
Surkhandarya region	-22%	2%	-24%	-5%	26%	-7%	-6%
Bukhara region	-4%	11%	-17%	18%	32%	13%	8%
Navoiy region	13%	16%	15%	28%	19%	-6%	12%
Khorezm region	9%	20%	13%	15%	24%	1%	10%
Republic of Karakalpakstan	15%	13%	19%	23%	24%	-7%	12%
Total	3%	7%	-1%	11%	16%	-2%	4%

Source: Central Bank calculations based on data from e-notarius.uz.

Furthermore, growth of rental prices in Tashkent city significantly slowed compared to the Republic. Prices in Fergana (21,1%), Bukhara (16,5%) and Tashkent (17,6%) regions grew faster than other regions (5-7%) (Figure 6).

Figure 4

Demand and supply dynamics in residential rental market

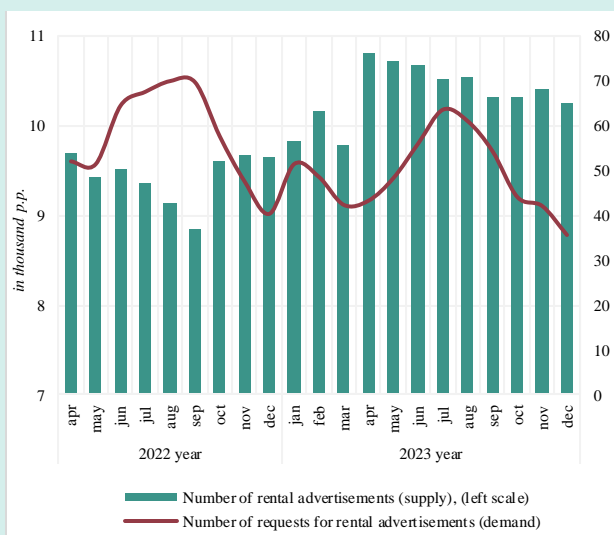
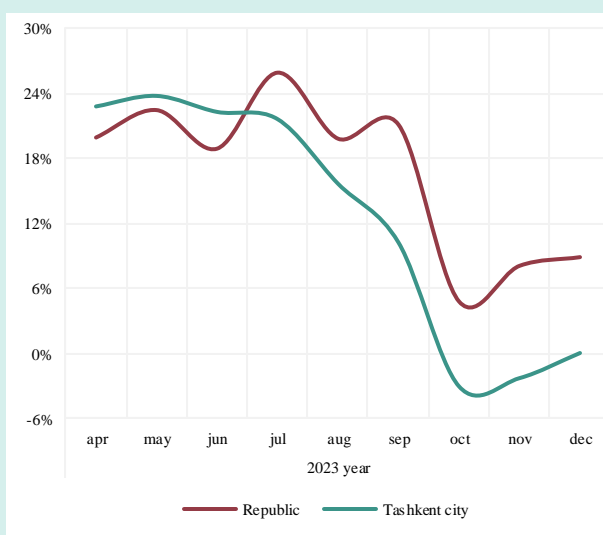


Figure 5

Changes in residential rental prices



Source: Central Bank calculations

1.4. Indicators of balance of payments and international investment position of the Republic of Uzbekistan

In 2023, the indicators of the **international investment position** and **balance of payments** of the Republic of Uzbekistan were emerged in the condition of **external factors** – fluctuations in the economies of main trading partners, a decline in global prices for certain export commodities, additionally, **internal factors** – heightened demand for imports and rising costs associated with servicing external debt.

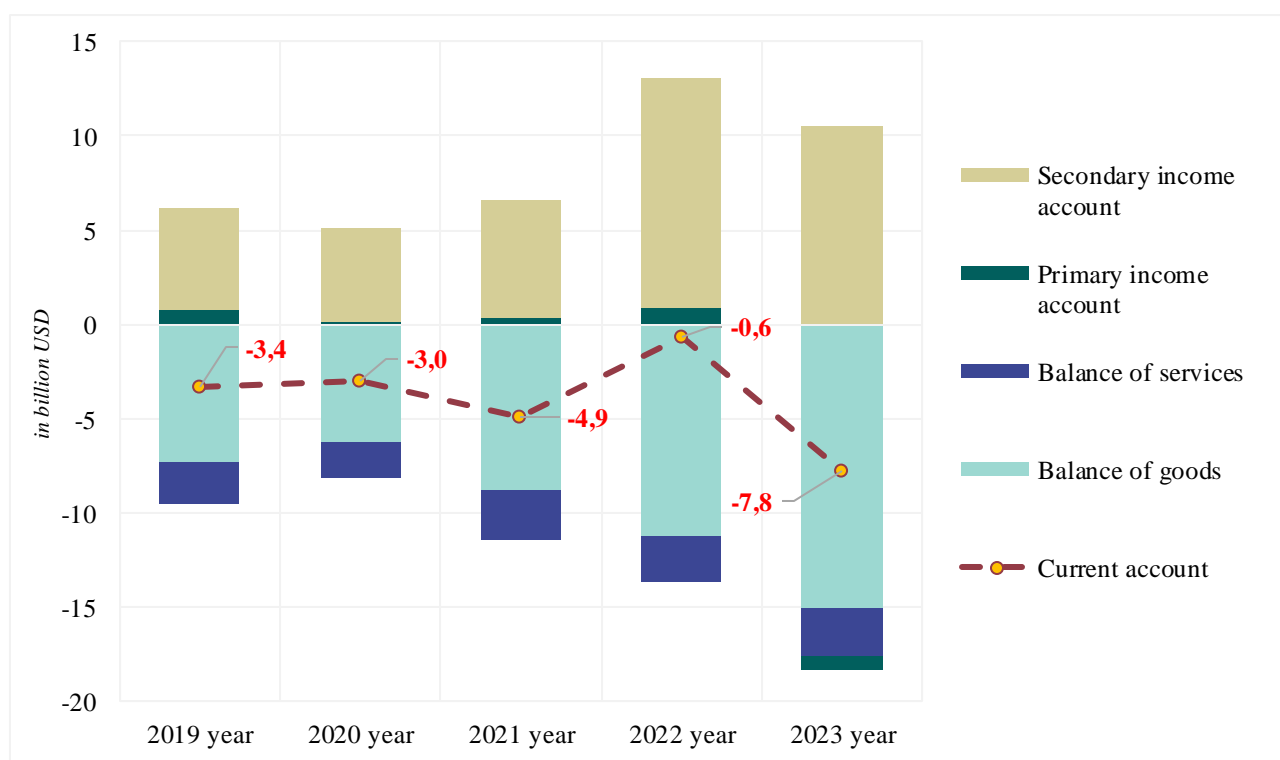
As part of the ongoing large-scale investment projects in the regions, the increased demand for imports of goods and services, the rising costs of servicing external debt, and the reduction in current remittances to the country were increasing factors for negative balance in the current account.

Increasing the volume of exports of goods and services due to rising exchange prices for raw materials and the growth in transport and tourism services, as well as the formation of international remittances to the country within its fundamental upward trend have positively impacted on the current account.

In 2023, the negative **balance of the current account** of the balance of payments amounted to **\$7,8 billion**, reflecting an increase compared to 2022.

Figure 1.4.1

Dynamics of the current account



Source: Central Bank data

Export of Goods and Services. In 2023, under the influence of the maintenance of stable prices for key raw materials in the global market, the accelerated growth of the tourism sector in Uzbekistan and relatively moderate transport costs, export¹⁰ increased by **12%** compared to 2022, reaching **\$24,5 billion**.

In particular, the export of goods increased by **13%** compared to 2022, reaching **\$19,4 billion**, while the export of services rose by nearly **42%**¹¹, amounting to **\$5,1 billion**.

Import of goods and services. In 2023, import increased by **18%** compared to 2022, totaling approximately **\$42,1 billion**. This rise was driven by heightened domestic demand for imported goods and the acquisition of machinery, equipment, vehicles, and raw materials from overseas for investment projects across various sectors of the economy.

Import of goods totaled **\$34,5 billion** in 2023, marking a **22%** increase compared to the previous period, while import of services amounted to **\$7,6 billion**, reflecting a **4%** increase.

High growth rates in import compared to export, a negative trade balance of approximately **\$17,6 billion** emerged, which partially offset by a positive balance of secondary income.

Primary and secondary income. Cross-border remittances, which are the main source of primary and secondary income, contributed to the reduction of the current account deficit in 2023.

Due to a decline in the number of labor migrants went for short-term work towards the main trading partner countries and a shift in their destination, the primary income of residents of Uzbekistan from non-residents decreased by **16%** compared to 2022, amounting to **\$3,6 billion**.

In conditions of relatively high interest rates in international financial markets, the increase in the cost of servicing external debt impacted the primary income earned by non-residents of Uzbekistan, which rose by **30%** and reached **\$4,3 billion** and resulted in a negative balance of primary income amounting to **\$761 million**.

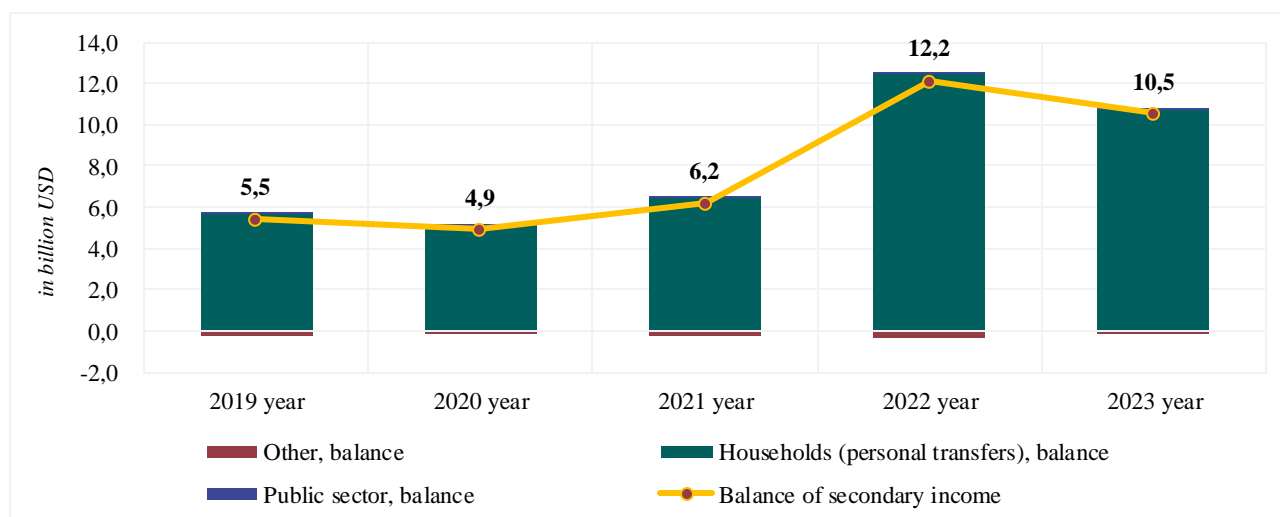
¹⁰ In accordance with "Balance of payments and international investment position manual" (BPM6, IMF, 2009 y.)

¹¹ According to the results of statistical surveys were conducted by the Central Bank and expert assessments during 2022, excluding adjustments in export of services.

The main sources of primary income include wages earned by citizens of Uzbekistan working abroad for short-term periods (*approximately 82%*), which decreased by **25%** compared to 2022. The increase in expenses within the “Primary income” component primarily reflects payments made as income and interest on investments by non-residents in Uzbekistan, as well as external borrowings.

Figure 1.4.2

Dynamics of the current transfers



Source: Central bank data

The positive balance of secondary income totaled **\$10,5 billion**, of which income from non-residents amounting to **\$11,2 billion** and payments on them totaling **\$671,9 million**.

The current account deficit primarily stemmed from external debt and foreign investments attracted by both state and private sector enterprises as part of financing government programs and investment projects.

In 2023, net foreign direct investment decreased by **16%** compared to 2022 amounted to approximately **\$2,2 billion**. This comprised a net capital gain of **\$870 million**, a net increase in parent debt of **\$914 million**, and a net decrease in investment under production sharing agreements (PSAs) amounting to **\$382 million**.

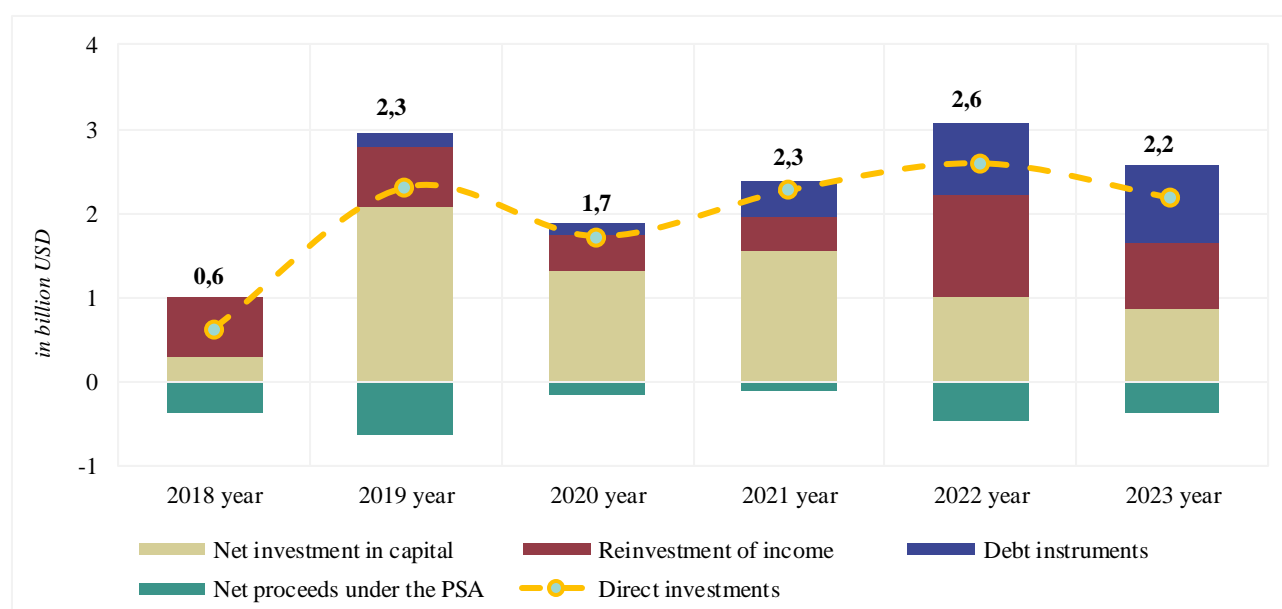
Also, reinvestment of foreign investment income decreased by **36%** compared to 2022 and amounted to **\$786 million**.

In 2023, the negative balance of portfolio investments totaled **\$995,4 million** which was attributed to the inflow of foreign portfolio investments into the equity of non-financial organizations, along with interest payments on international bonds issued by the government, commercial banks, and other enterprises, including “green” Eurobonds.

Simultaneously, loans and borrowings attracted from external sources constitute the primary means of financing the current account deficit, with revenues increasing by **57%** compared to 2022, reached **\$7,1 billion**.

Figure 1.4.3

Changes in the structure of foreign direct investment



Source: Central Bank data

Despite the decrease in the net international investment position in the end of 2023, the Republic of Uzbekistan maintained its position as a “net creditor”.

In 2023, **total foreign assets** grew by **3%** and reached **\$84,9 billion**, while **total foreign liabilities** increased by **14%** and reached **\$72,5 billion**. As of January 1, 2024, the country’s **net international investment position** amounted to **\$12,4 billion**.

Despite the increase in foreign currency assets and the positive trends in global gold prices, the decline in the net international investment position was primarily attributed to the government’s, banks’, and other private sector enterprises’ acquisition of external debt and foreign investment.

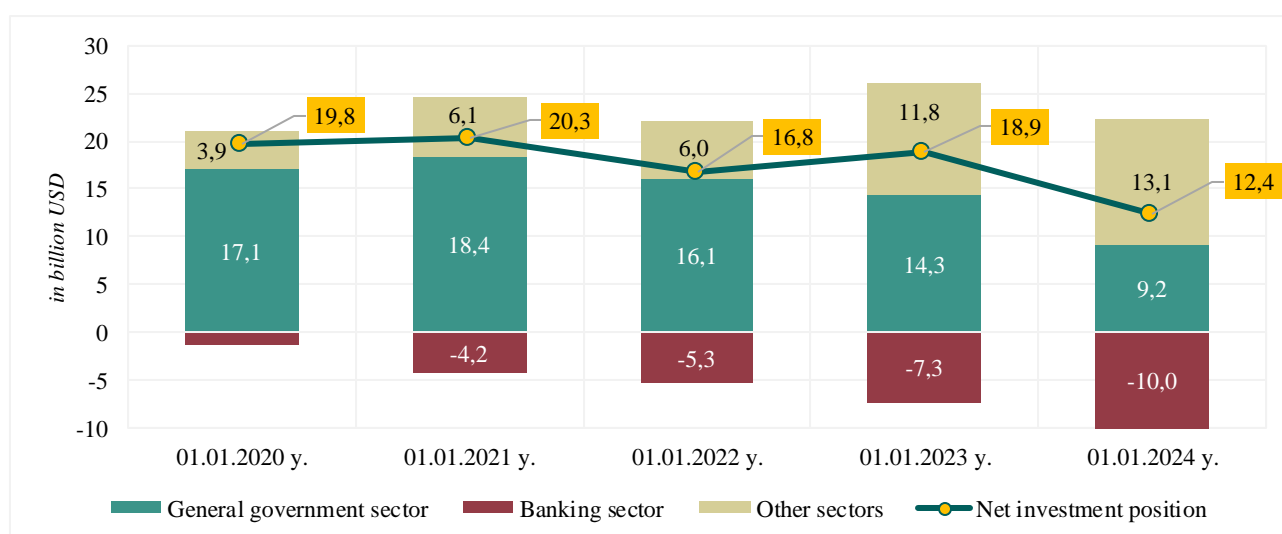
Total external debt¹² increased by **22%** and reached **\$53,1 billion** as of January 1, 2024. The public sector’s share of the total external debt decreased from **59%** to **56%**, whereas the private sector’s share increased from **41%** to **44%**.

Due to the increased volume of financing of government programs for regional and sectoral economic development, as well as the attraction of new loans primarily from commercial banks, the energy sector, and enterprises in other economic sectors, the total volume of external debt increased by **\$9,5 billion** in 2023.

¹² Includes government, government-guaranteed, and private debt, including accrued but unpaid interest on debt.

Figure 1.4.4

International investment position of the Republic of Uzbekistan,

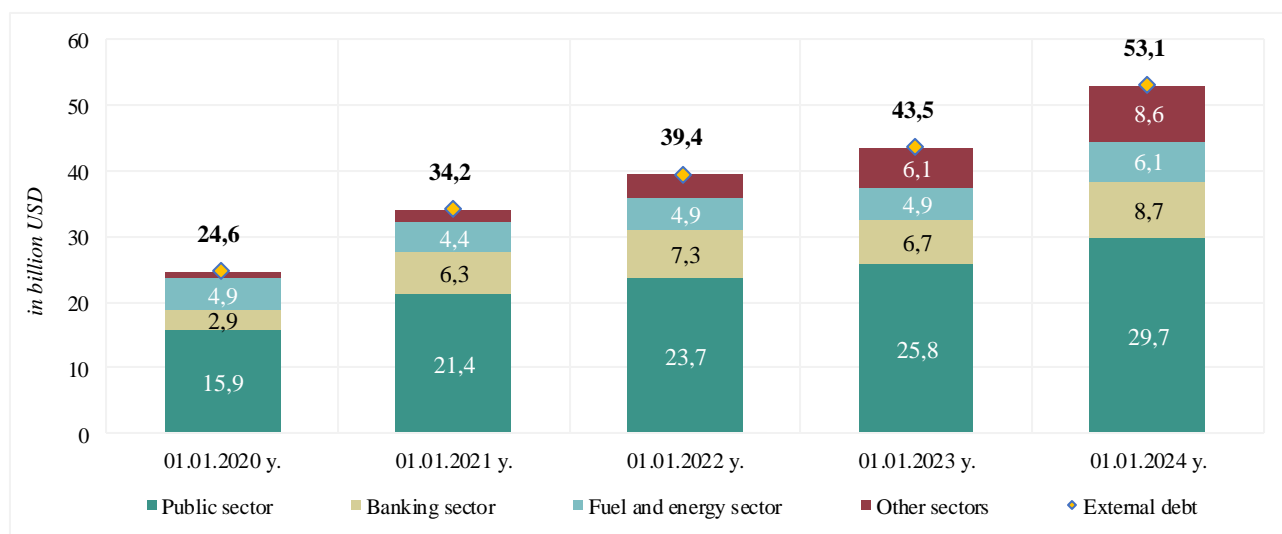


Source: Central Bank data

The government accounts for \$3,9 billion in total receipts of external debt obligations, and \$5,6 billion is external debt obligations of private sector.

Figure 1.4.5

Structure of the total external debt of the Republic of Uzbekistan



Source: Central Bank data

As part of the total external debt, the balance of government debt obligations increased by 15% and amounted to \$29,7 billion, in banking sector, it increased by 30% and totaled to \$8,7 billion, in the oil and gas and energy sector by 23% reached \$6,1 billion, and in other sectors, it increased by 41%, amounted to \$8,6 billion.

To improve external sector statistics, IMF technical assistance mission was received in 2023. Additionally, within the framework of exchange practices with experts from the National Bank of Georgia, practices of formulating balance of payments statistics improved.

II. DEVELOPMENT AND FINANCIAL STABILITY OF BANKING SYSTEM IN 2023

In 2023, macroprudential policy of the Central Bank was directed to ensure financial stability of the banking system at an acceptable level amid ongoing uncertainties in the global economy.

In order to minimize the negative effects of possible risks on capital and liquidity of banks, activities of banks were regularly analyzed in accordance with control indicators developed with the support of World Bank experts and Financial Soundness indicators of the IMF, and stress tests were conducted under various scenarios.

Based on the results of these stress-tests, measures were undertaken including, a true assessment of the quality of assets of commercial banks, formation of sufficient reserves against possible losses, monitoring financial condition of the largest customers of banks, improving collection system of problematic loans, writing-off non-banking assets, optimizing costs, forming capital and liquidity buffers in a timely manner.

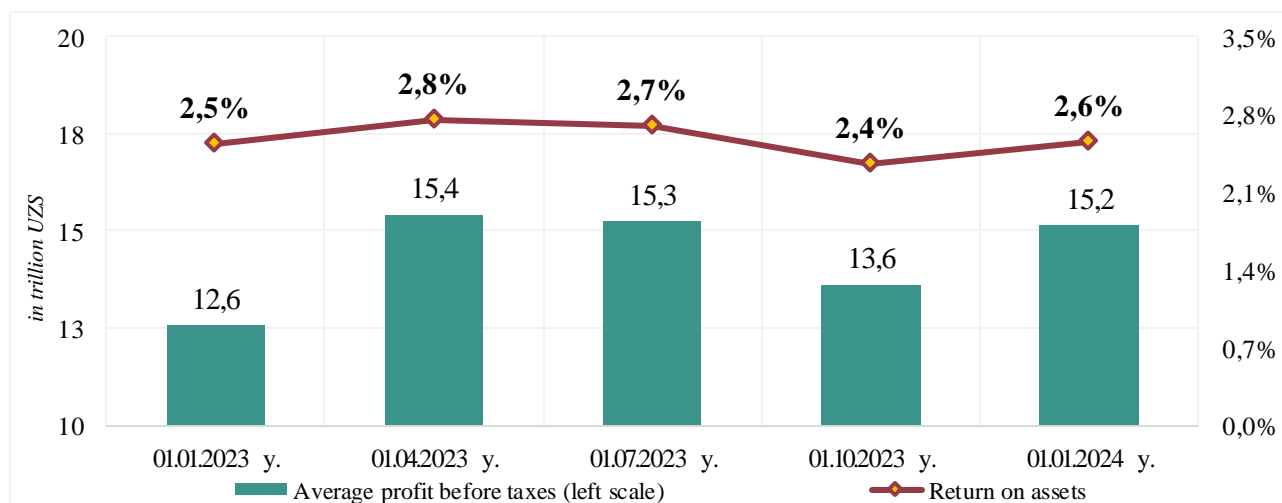
2.1. Financial stability of the banking system

In 2023, the **net profit** of the banking system increased by 24% compared to 2022, amounting to **12,4** trillion UZS. Concurrently, the gross income totaled **128,7** trillion UZS, while expenses amounted to **116,4** trillion UZS.

Interest income constituted **67%** of the total income of banks, while **non-interest income** accounted for **33%**. **88,3%** of the interest income was derived from loans and customer obligations, **6,2%** from funds placed in other banks, and **5,5%** from income generated from securities.

Figure 2.1.1

Dynamics of return on assets (ROA) of the banking sector



Source: Central Bank data

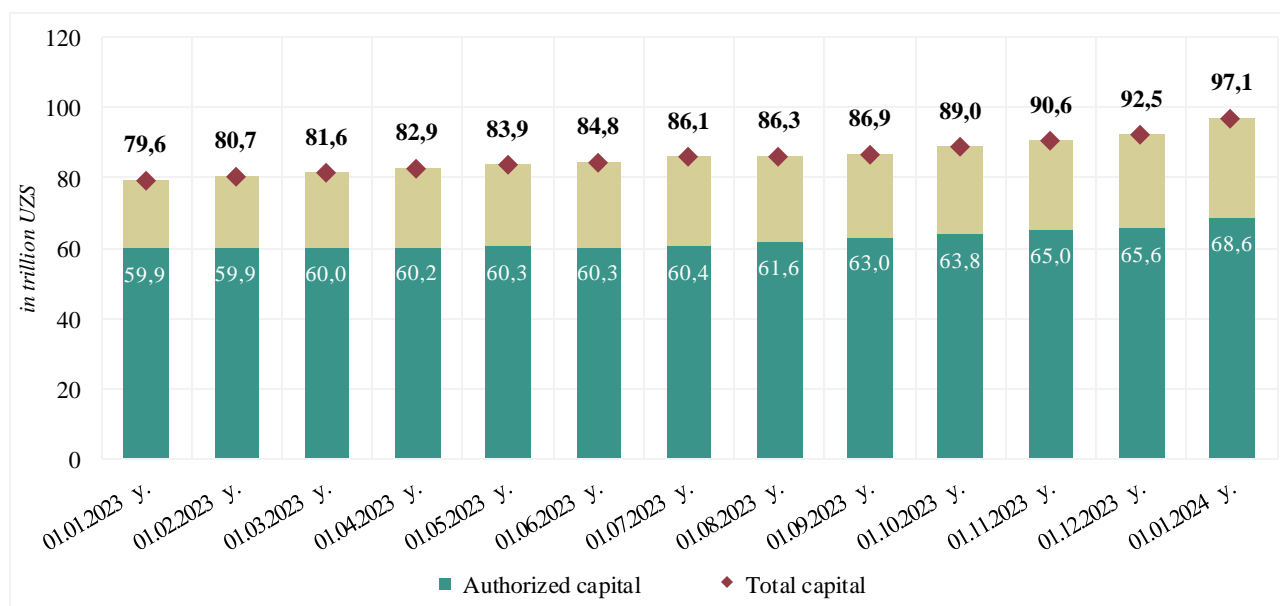
In 2023, there were positive changes in the profitability indicators of the banking system. By the end of the reporting year, the **return on assets** increased by **0,1 p.p.** compared to 2022, reaching **2,6%**, while the **return on equity** increased by **0,9 p.p.**, reaching **14,2%**.

A decrease in the return on assets of the banking system was observed in the third quarter of 2023, which can be attributed to the creation of additional reserves by some banks to cover potential asset losses.

The operating efficiency indicator (CIR) increased by **1 p.p.** in 2023 compared to 2022, reaching **34%** (*given that the optimal level for this indicator is 50%, this decrease is considered positive*).

Figure 2.1.2

Level of capitalization of the banking sector



Source: Central Bank data

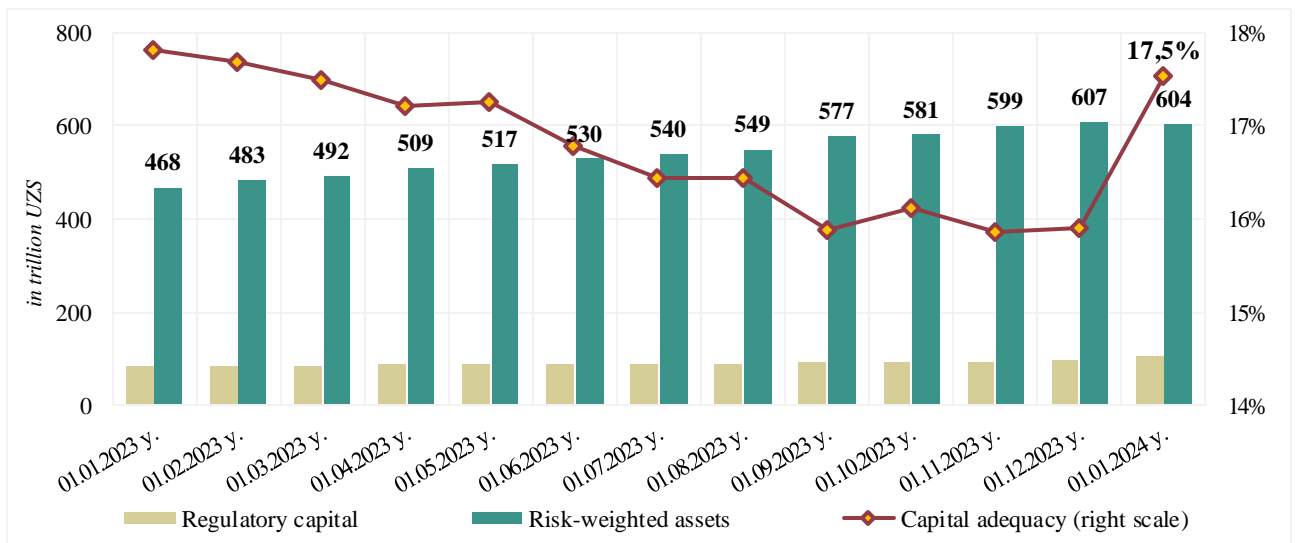
The increase in the CIR compared to the beginning of the year is attributed to higher costs for the maintenance and repair of certain bank buildings and structures, insurance of banking services, and consulting expenses related to the development of digital banking activities.

In the reporting year, the **total capital** of banks increased by **22%**, reaching **97** trillion UZS by the end of the year, while the authorized capital increased by **15%**, amounting to nearly **69** trillion UZS.

Additionally, by the end of 2023, the volume of regulatory capital in the banking system amounted to **106** trillion UZS, with risk-weighted assets totaling **604** trillion UZS, **capital adequacy ratio** stood at **17,5%** (*minimum requirement 13%*).

Figure 2.1.3

Dynamics of the capital adequacy ratio



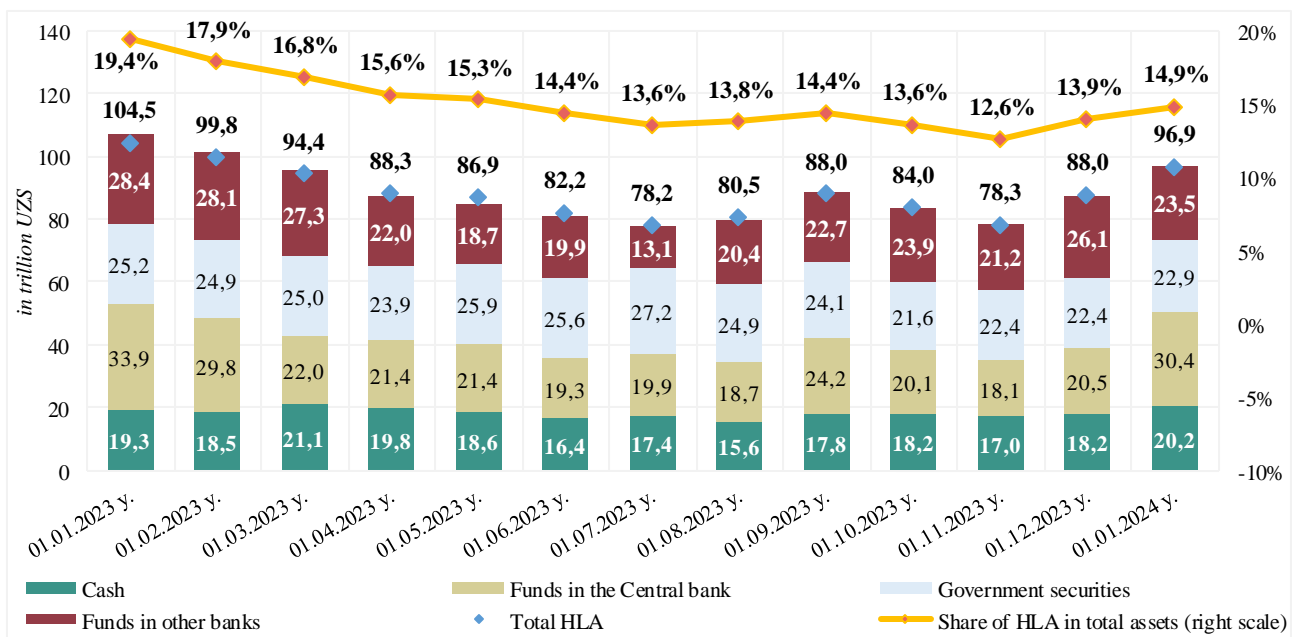
Source: Central Bank data

The reason for the capital adequacy ratio of banks remained at a higher level at the end of the year compared to other months is due to a change in the methodology for calculating this indicator.

In 2023, the volume of HLA decreased by 7,6 trillion UZS, or 7%, to 97 trillion UZS. Within components of HLA, assets in the national currency decreased by 4,5 trillion UZS, while assets in foreign currency decreased by 3,1 trillion UZS, resulting in volumes of 46,5 trillion UZS and 50,4 trillion UZS, respectively.

Figure 2.1.4

Structure of high liquid assets (HLA) and dynamics of their share in total assets

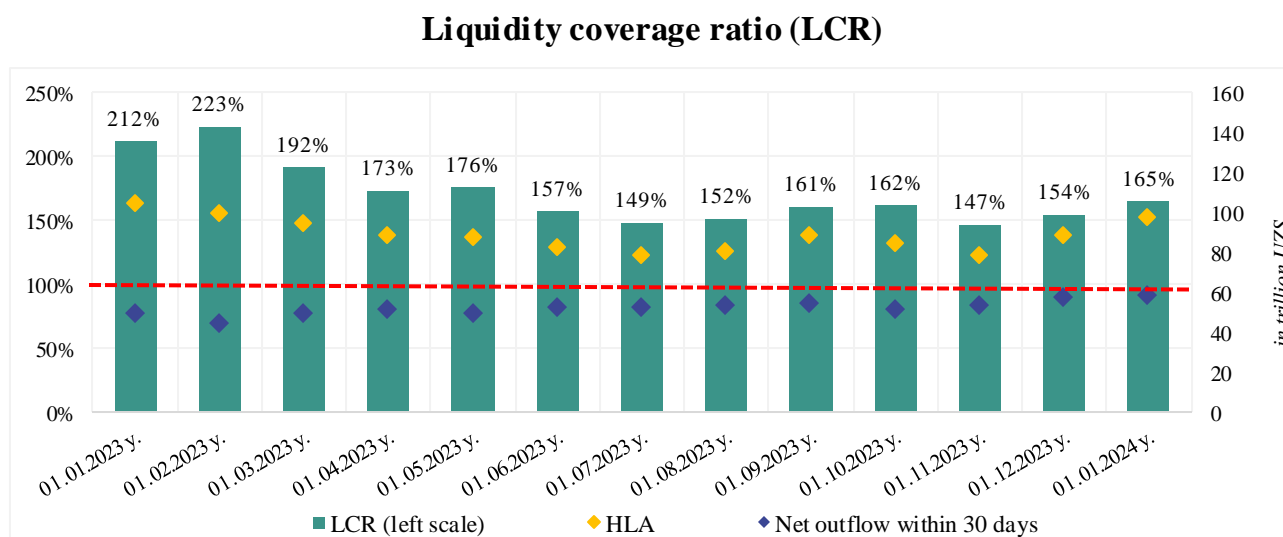


Source: Central Bank data

As a result, the **share of HLA in total assets** decreased by **4,6 p.p.** compared to the beginning of 2023, reaching **14,9%** by the end of the year (*minimum requirement – 10%*).

The decrease in high liquid assets occurred in the condition of increased costs of external resources, attributed to higher policy rates set by Central Banks of developed countries. This trend was further exacerbated by global instability, prompting investors to redirect funds towards safer assets.

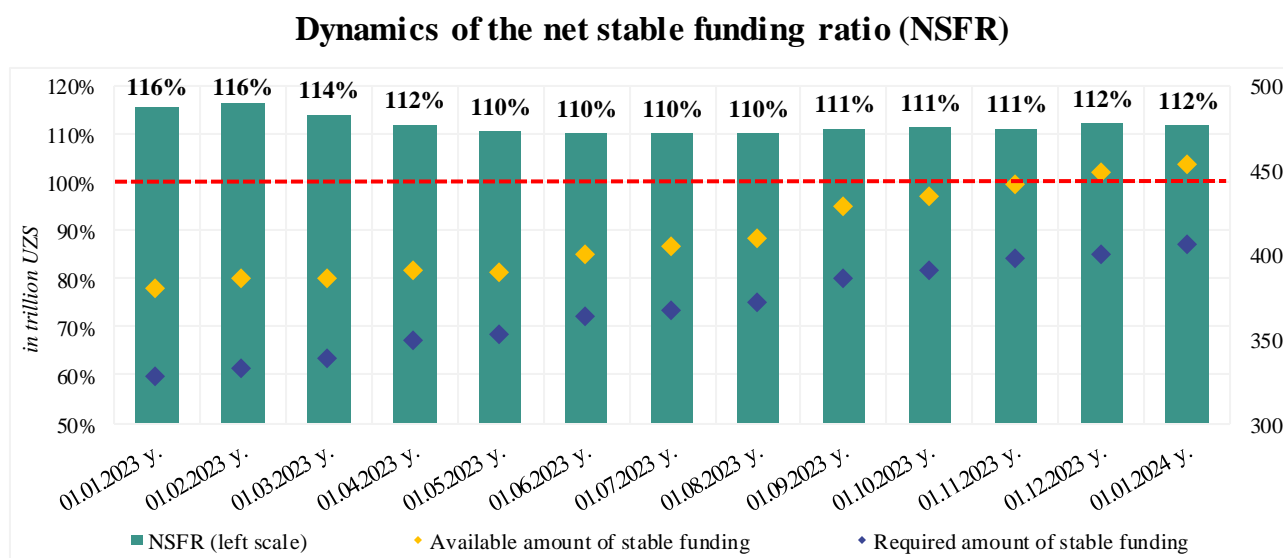
Figure 2.1.5



Source: Central Bank data

Despite the decrease in the volume of high liquid assets, the short-term liquidity (*LCR*) and the long-term liquidity indicators (*NSFR*) in the banking system have maintained acceptable levels. This stability is supported by the accumulation of stable internal resource funds, notably an increase in deposits in the national currency by 29% (38 trillion UZS).

Figure 2.1.6



Source: Central Bank data

Although **LCR** decreased from **212%** to **165%** over the reporting year (*minimum requirement 100%*), banks remained capable of fully meeting their obligations to customers within the next 30 days during unexpected stress situations in the banking system.

NSFR decreased by **4 p.p.**, declining from **116%** at the beginning of 2023 to **112%**. This indicator remained consistent at **112%** for both national and foreign currencies.

2.1.1. Main performance indicators of commercial banks

In the reporting year, the **total assets** of banks increased by **95** trillion UZS or **17,1%** and as of January 1, 2024 amounted to **652** trillion UZS.

70,2% of assets consist of extended loans, **8,2%** – funds held in other banks, **5,1%** – funds deposited in the Central Bank, **5%** – investments and purchased securities, **3,1%** – cash holdings, **3%** – fixed assets, **3%** – accrued interest, and **2,4%** pertains to other private property and assets.

To meet the credit demands of the economy and provide financial support to business entities, banks allocated **251** trillion UZS loans in 2023, marking a **24%** increase compared to 2022. **60%** of these loans were extended to business entities, with the remaining **40%** directed towards individuals.

In 2023, the share of loans allocated by private banks in the total amount of extended loans increased from **31%** to **43%** while, the share of loans allocated to corporate clients rose from **25%** to **34%**.

Additionally, during the reporting year, revolving loans amounting to **57** trillion UZS were extended to ensure the continuity of business activities and replenish **working capital** for business entities.

The repayment rate of previously extended loans increased by **7 p.p.** compared to the end of 2022, reaching **74%** by the end of the reporting year, which served as the primary source of financing for the economy amid an increase in the value of external resources.

As a result, the balance of extended loans by banks increased by **21%** or **81** trillion UZS compared to the beginning of 2023 and reached **471** trillion UZS as of January 1, 2024.

The portion of loan in **national currency** increased by **2 p.p.** compared to 2022, reaching **55%**, while the share of loans in **foreign currency** decreased by **2 p.p.**, amounting to **45%** of the total loan portfolio.

Figure 2.1.1.1

Dynamics of extended and repaid loans

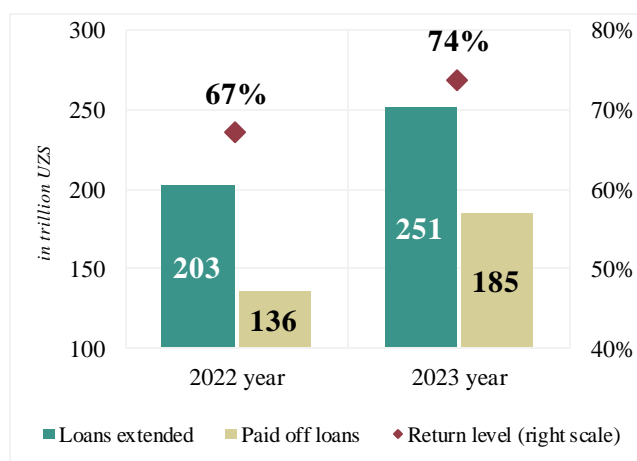
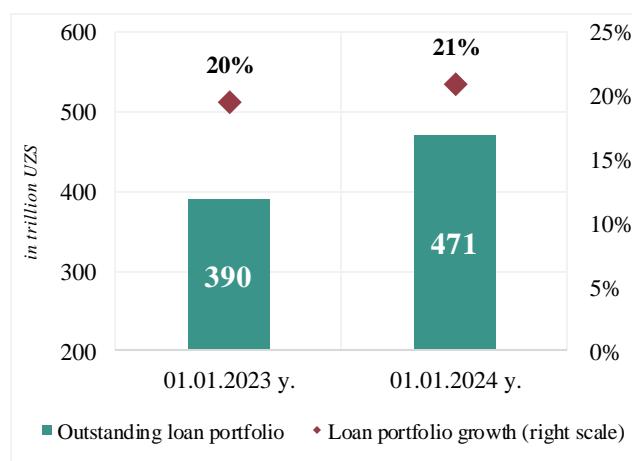


Figure 2.1.1.2

Dynamics of the loan portfolio



Source: Central Bank data

The decrease in the share of loans extended in foreign currency in the loan portfolio is attributed to an increase in the cost of resources obtained from abroad, a higher repayment rate of loans in foreign currency (*from 69% to 89% in 2022*), and enhanced *capabilities* of business entities to mitigate risks associated with exchange rate fluctuations.

The balance of extended loans in terms of economic sectors increased by **10,7%** up to **140,2** trillion UZS in industry, by **12,3%** up to **47,3** trillion UZS in agriculture, by **15,7%** up to **34,3** trillion UZS in transport and communications, by **12,5%** up to **32,5** trillion UZS in trade and public catering, and by **18%** up to **12,3** trillion UZS in construction.

Enhancements in corporate governance within commercial banks, the penetration of foreign digital banks into the local market, and the expansion of remote customer services create foundation for increasing lending volumes to the economy based on market principles.

In particular, in 2023 outstanding **preferential loans**¹³ increased by **5%** (*6 trillion UZS*) and reached **145** trillion UZS by the end of the year while **its share in the total volume** of extended loans decreased from **36%** at the beginning of the previous year to **31%** at the beginning of the current year.

In 2023, significant efforts were directed towards creating favorable conditions to meet the increasing economic demand for loans and attracting long-term internal sources of financing into the banking system. This initiative was undertaken amidst rising resource prices and heightened competition in the external resource market.

¹³ *Preferential loans include loans in national currency with an interest rate below policy rate of the Central Bank, as well as loans in foreign currency guaranteed by Fund for Reconstruction and Development of Uzbekistan and the Government.*

In the reporting year, the total liabilities of banks reached **555** trillion UZS, marking a **16%** increase or **78** trillion UZS compared to 2022. The breakdown of this increase shows that **48%** rise from **borrowed funds**, **32%** from **deposits**, **7%** from local **interbank loans and deposits**, **4%** from **subordinated debt**, and **9%** from other liabilities.

As of January 1, 2024, deposits constituted **44%** in the composition of liabilities, attracted loans – **40%**, funds raised from other banks – **8%**, issued securities – **2%**, while subordinated debts, accrued interest payments, funds paid to the Central Bank, and other liabilities collectively accounted for **6%**.

During 2023 the balances of household deposits attracted by commercial banks increased by **37%** to **86** trillion UZS, including a **45%** increase or **18** trillion UZS in balance of deposits attracted in national currency, while the share of household deposits the total sum increased from **63%** in 2022 to **66%**.

Furthermore, in the overall structure of deposits, **the share of demand deposits** decreased from **43%** to **35%**, the share of short-term deposits (*up to 1 year or less*) increased from **26%** to **29%**, while the share of long-term deposits (*more than 1 year*) increased from **31%** to **35%**.

In 2023, the volume of foreign loans attracted directly by commercial banks (*without government guarantee*) amounted to **\$4,3** billion, marking a **2,1-fold** increase compared to 2022. Within this, the share of short-term foreign loans for a period of up to one year amounted to **34%** or totaling **\$1,5** billion.

In the reporting year, foreign loans amounting to **\$2,4** billion were repaid (*the same amount as in 2022*), out of which **\$1,7** billion (**72%**) constituted long-term loans.

The balance of **external credit resources** attracted by commercial banks increased by **29%** compared to 2022, reached **\$8,5** billion as of January 1, 2024.

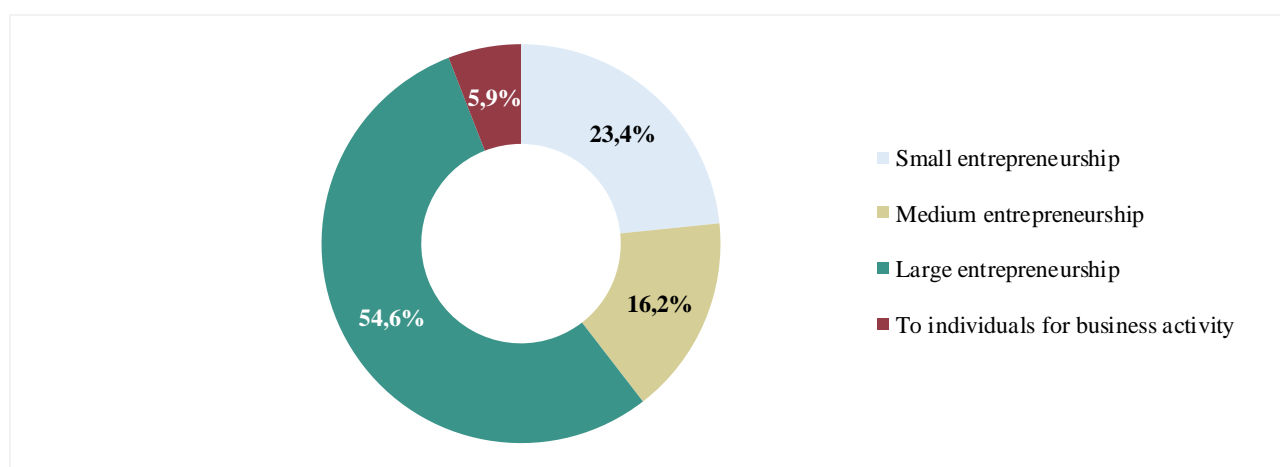
2.1.2. Analysis of loans extended for entrepreneurship

In recent years, on the one hand, there has been an improvement in the business environment alongside a reduction in the state's share in the economy, on the other hand, in the condition of limited alternative funding sources, there remains strong demand for bank loans to finance private sector investment projects.

To meet the high demand and support business activity, commercial banks allocated **160** trillion UZS loans to over 581 thousand projects in 2023, marking a **1,3-fold** increase compared to 2022.

Figure 2.1.2.1

Loans extended for entrepreneurship in 2023, by category



Source: Central Bank data

*According to Decree of the President of the Republic of Uzbekistan No. DP-21 dated February 10, 2023, business entities, depending on annual turnover, are divided into **small, medium and large** categories.

Self-employed citizens were also accounted as part of family business development programs.

In the reporting year, in order to support the development of small and medium-sized businesses, including family businesses, and to provide financial support for entrepreneurial initiatives among women and youth, loans totaling **73** trillion UZS were allocated to more than **573** thousand projects.

In 2023, banks allocated loans totaling **\$3,2** billion to finance projects of entrepreneurs in the regions using **foreign credit lines** and this financing supported approximately **16** thousand projects, with **\$2,7** billion (86% of the total foreign credit lines) **raised** directly (without government guarantee). Of which, **\$1,2** billion was specifically allocated to finance **small and private businesses**.

Although the volume of loans through foreign credit lines allocated to agriculture and the service sector remained almost unchanged compared to the previous year, there were significant increases in lending to other sectors in 2023. Specifically, lending to the industry sector increased by **1,5 times**, construction by **2,7 times**, trade and public catering by **1,6 times**, and transport services by **3,3 times**.

In order to ensure sustainable supply of **food products** to the domestic market amidst global economic uncertainties and volatile prices of key raw materials worldwide, financial support for this sector was sustained. As of January 1, 2024, the total balance of loans extended for projects related to food production amounted to **23,8** trillion UZS.

Of which, **12,3** trillion UZS was for financing greenhouses (52%), **4,2** trillion UZS for livestock farming (18%), **2,4** trillion UZS for cold storage (10%), **2,0** trillion UZS for poultry farming (8%), **1,3** trillion UZS for gardening (5%), **591** billion UZS for fishing (2%), **557** billion UZS for growing vegetables (2%), as well as **372** billion UZS for processing meat and milk (2%).

In 2023, commercial banks extended loans in the amount of **53,7** trillion UZS to finance more than **39** thousand projects of business entities in the **field of trade and services**.

Of these funds, **23** trillion UZS were allocated to projects in the service sector, **16,9** trillion UZS to trade activities, **13,8** trillion UZS to replenish the working capital of entrepreneurs.

More than **3,5** trillion UZS were provided by commercial banks to support tourism activities to **3 548** business entities.

Of these loans, **1,3** trillion UZS were allocated for the development of hotels, **896,7** billion UZS for restaurants, **449,3** billion UZS for passenger transportation services, **112,8** billion UZS for sports and health tourism, **43,1** billion UZS – for the activities of travel agencies and camps.

As part of the **programs for the development of family entrepreneurship** (hereinafter – “Programs”), over the past 6 years, in order to widely involve individuals in entrepreneurial activities and create additional sources of income, preferential loans worth more than **44** trillion UZS were allocated, which allowed **1,9** million people to engage in income generating activities.

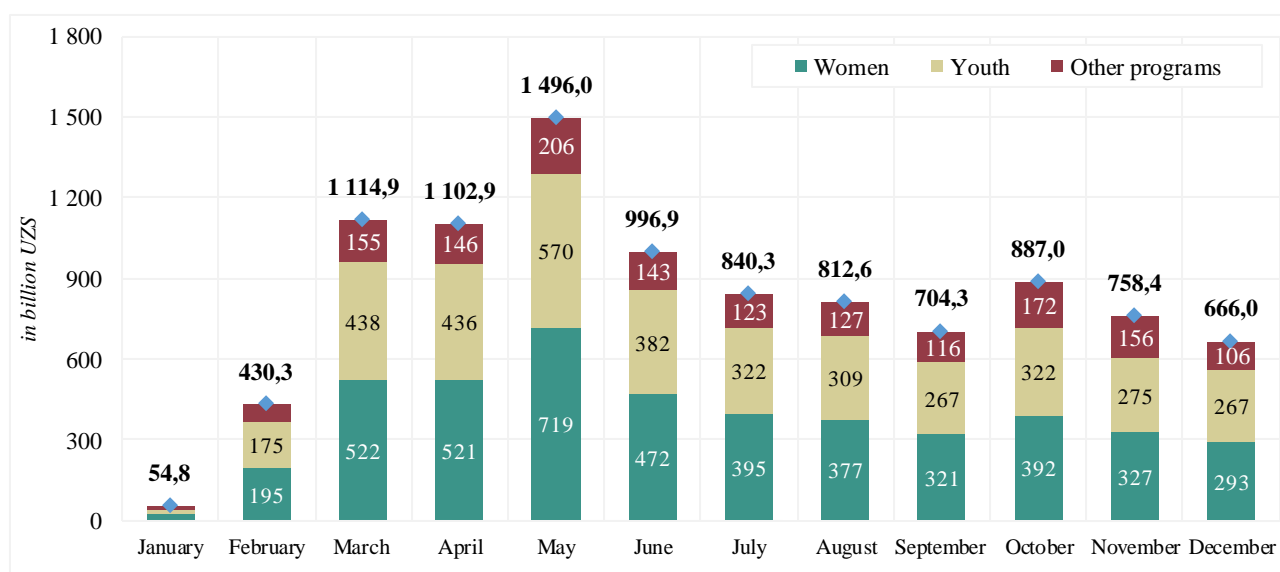
As a result, an average of 193 households out of every 1 000 nationwide were able to earn additional income through these programs.

In 2023, the implementation of programs was continued, special attention was paid to involve youth and women in paid positions, and based on the recommendations of mayor’s assistants, over **9,9** trillion UZS preferential loans were extended, supporting over **472** thousand projects.

Of these preferential loans, **3,8** trillion UZS were allocated to support entrepreneurial initiatives of youth (*more than 174 thousand projects*) and **4,6** trillion UZS for supporting women’s entrepreneurial initiatives (*more than 262 thousand projects*).

Figure 2.1.2.2

Dynamics of loans under family business development programs in 2023



Source: Central Bank data

369 billion USZ (4%) of loans allocated within the programs to legal entities and individual entrepreneurs, **9,5** trillion USZ (96%) to self-employed individuals.

As part of Programs, all processes are completely digitized using electronic signatures, including:

- applying for a loan, analyzing the borrower’s rating, recommendations from mayor’s assistants, issuing loan documents, ordering products, monitoring and verification of applicant are conducted through **oilakredit.uz** platform;

- registration of documents for purchasing products and equipment, as well as ordering services, are conducted through the **electronic trading platform “marketplace”** (smart-market.uz) based on principles of free choice and a competitive environment.

The participation of the **human factor** is minimized through the integration of e-commerce with the information systems of the Tax Committee, Customs Committee, Personalization Agency, “Electronic Government”, and other ministries and departments via secure communication channels. In particular,

- making a recommendation and preparing a report on the actual delivery of goods (services) purchased on credit, launched a system that includes geolocating project’s location, placing photo signs, and conducting **biometric verification** of borrower (*including biographical data and a digital photo*) through the tablet of the mayor’s assistant.

- to ensure the actual entering into contracts by business entities which offering their goods and services, in accordance with the available volume of goods (*services*) to them, the electronic trading platform “Marketplace” has been integrated into the electronic platform **“E-aktiv”**.

In 2023, approximately **20** thousand large manufacturers, wholesale trade organizations and product suppliers offered **685** types of products (*more than 375 thousand offers*) for sale on the electronic trading platform. Over **345** thousand goods and services, valued at **9** trillion UZS, were delivered through the trading platform.

Within the framework of the Programs, **3,4** trillion UZS of loans were allocated to agriculture in 2023 (*including 677 billion UZS for livestock farming, 1,1 trillion UZS for the creation of greenhouses, 605 billion UZS for horticulture*). Additionally, **4,4** trillion UZS were allocated to the service sector, **1,4** trillion UZS to handicrafts, and **710,4** billion UZS to manufacturing and other sectors.

2.1.3. Prudential and macroprudential measures utilised to ensure the financial stability of banks

In 2023, as part of prudential control measures, significant efforts were made to improve the loan portfolio of the banking system and reduce the share of non-performing loans. Services were tailored to consider the debt burden of individuals, potential credit risks were mitigated through the analysis of the financial situation of large debtors, and access to financial services for self-employed individuals was expanded.

In particular, during 2023, to prevent the negative impact of non-performing loans on the financial stability of the banking system and reduce their weight, bank loan portfolios were regularly analyzed by banks, regions, and segments.

Based on the results of the analysis, the management of the relevant banks were given instructions to address shortcomings and existing vulnerabilities in the system.

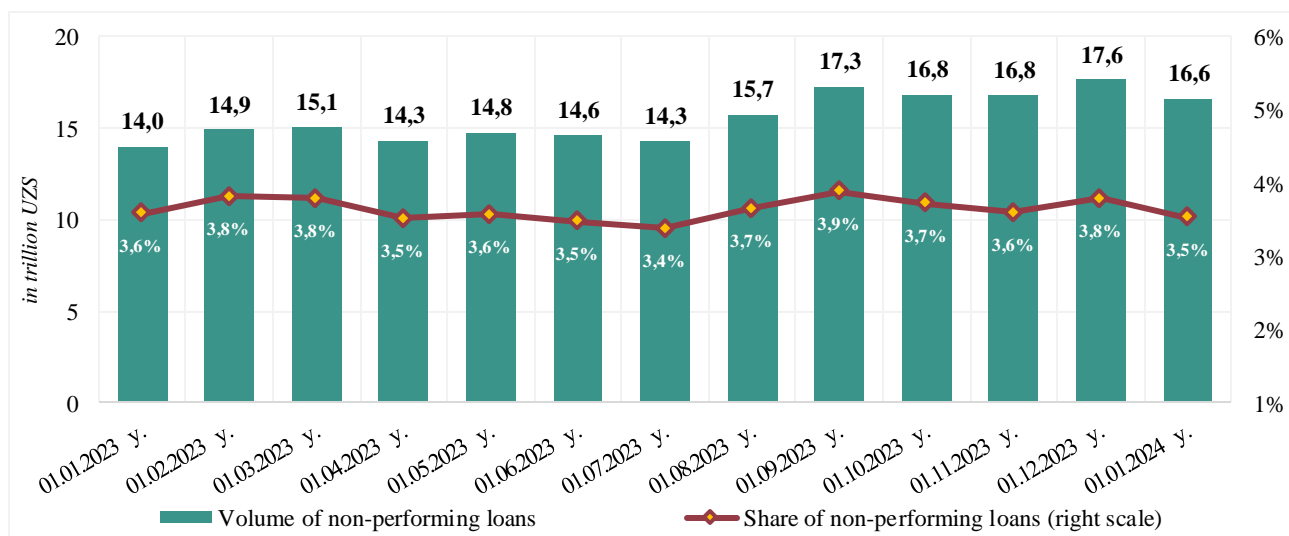
In addition, to increase the efficiency of non-performing loans collection in the regions, working groups consisting of senior staff of commercial banks, led by deputy chairmen of the Central Bank, were established to study the state of non-performing loan collection locally. Furthermore, the Cabinet of Ministers, the General Prosecutor's Office, the Central Bank, and the Accounts Chamber approved a package of joint instructions and created a **vertical control system** to organize, coordinate, and evaluate the activities of responsible officials in the regions.

At the end of 2023, the share of non-performing loans in the total volume of loans in the banking system decreased to **3,5%** (*3,6% at the end of 2022*).

As of January 1, 2024, **80%** of the loan portfolio of commercial banks is classified as “**standard**”, **16%** as “**substandard**” and **3,5%** as problematic (*1,5% as “unsatisfactory”, 1,1% as “doubtful” and 0,9% as “hopeless”*).

Figure 2.1.3.1

Dynamics of the share of non-performing loans in the total volume



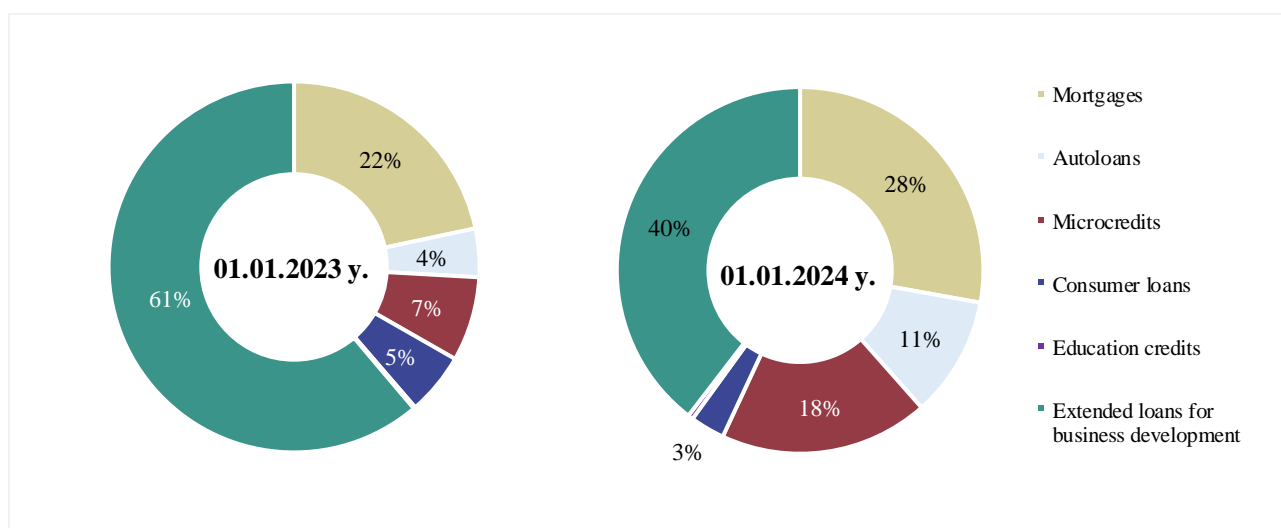
Source: Central Bank data

In 2023, banks created additional reserves for assets (*excluding the “standard” loan portfolio*) amounting to **2,4** trillion UZS, and **the coverage level of non-performing loans by reserves** increased from **80%** in the corresponding period of last year to **82%** as of January 1, 2024.

85% (*14,1 trillion UZS*) non-performing loans belongs to business entities, while **15%** (*2,5 trillion UZS*) to individuals.

Figure 2.1.3.2

Non-performing loans of individuals



Source: Central Bank data

In the structure of non-performing loans of households, **1,0** trillion UZS (*40%*) were loans for the development of entrepreneurship, **709** billion UZS (*28%*) – mortgages, **470** billion UZS (*18%*) – microloans, **271** billion UZS (*11%*) – auto loans, and **89** billion UZS (*3%*) were classified as other consumer loans.

To mitigate the adverse effects of foreign economic risks on banking stability, the Central Bank conducted stress tests to assess the liquidity impact of risks related to the early fulfillment of financial obligations by commercial banks to foreign counterparts.

Macroprudential measures were strengthened to ensure the **diversification** of banking assets and prevent an escalation in the **debt burden of the population**.

In particular, to mitigate risks associated with the concentration of auto loans, a practice has been introduced to assess the risk level of auto loans based on the value of their collateral.

As a result, while an average of 3,4 trillion UZS of auto loans were allocated per month during the first 8 months of 2023, the monthly allocation decreased to 2,4 trillion UZS from September to December.

Additionally, it has been established that risk levels for issuing loans to individuals (*excluding those issued under family business development programs*) are assessed based on the **loan-to-collateral ratio** and the **debt burden of households**.

The introduction of this norm will further encourage **accurate assessment of the creditworthiness** of individuals by banks when providing loans, thereby helping to mitigate the risk of increasing the debt burden of individuals.

To effectively manage significant risks which is crucial for the banking system's operation and assess its efficiency, a methodology was introduced to analyze the financial condition of the **top-50 debtors** within the banking system's credit portfolio. This includes establishing risk levels, preparing individual information (*dashboard*) for each debtor, and studying their impact on the financial condition of banks.

As of January 1, 2024, according to preliminary analysis, loans extended by commercial banks to 50 large borrowers constituted **24%** (*112 trillion UZS*) of the loan portfolio of the banking system, within this, **70%** (*77 trillion UZS*) were attributed to **state-owned enterprises** and **30%** (*35 trillion UZS*) to **private enterprises**.

Considering that **77%** of these loans (*86 trillion UZS*) were allocated in foreign currency, and recognizing that currency depreciation can escalate the credit burden for borrowers and increase the risk of timely repayment, commercial banks have instituted a practice of regular monitoring for **20 largest borrowers**.

In addition, the risk level for microfinance services provided to self-employed individuals and small businesses with regular income and turnover of funds in bank accounts for at least 6 months has been reduced from 100% to 75%.

This adjustment lays the groundwork for expanding bank lending opportunities to self-employed individuals and small businesses in the future.

Also, efforts are underway to align the methodology for calculating capital adequacy with the **standards set by the Basel Committee**:

- the requirements for determining the risk level of assets in banks have been revised, and specifically, the risk level of investments in the capital of business entities engaged in non-financial activities has been set at **200%**;

- the distribution of shares of Tier I and II capital in the structure of regulatory capital of banks is now equal, with each comprising 50% (*previously, Tier II capital was limited to a maximum of 25% under the old requirement*);

- accounting for **subordinated borrowed funds** is now limited to an amount not exceeding **100%** of Tier I capital after settlements.

- **investments** in the capital of business entities engaged in non-financial activities are now accounted for **without deductions** from regulatory capital.

2.1.4. Debt burden of households

In recent years, sustainable economic growth and rising positive expectations regarding income heightened households' demand for bank loans. This, in turn, has led to an increase in the level of debt burden of individuals.

In 2023, the **debt service ratio** for total loans issued to households reached **7,7%**, marking an increase of **1,2 p.p.** compared to 2022.

Figure 2.1.4.1

Debt service ratio for the total amount of loans extended to individuals

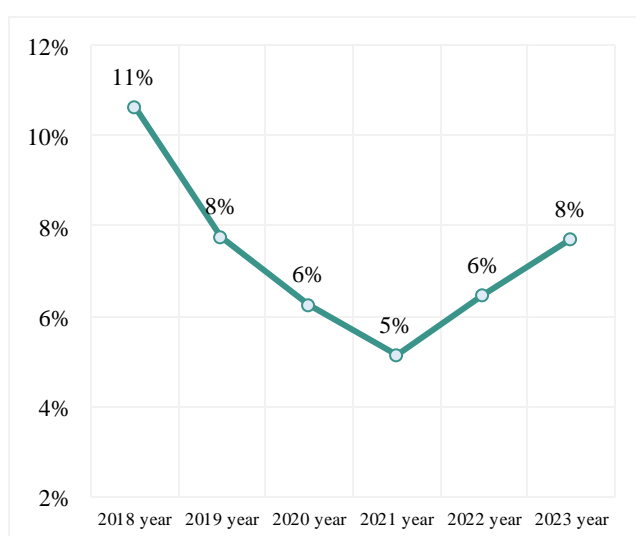
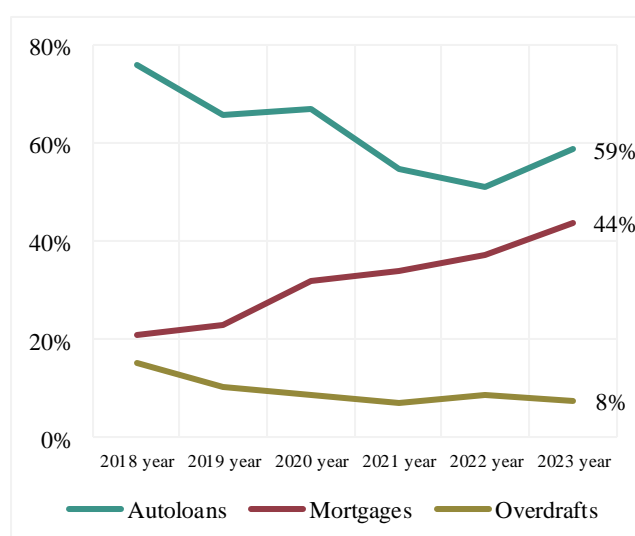


Figure 2.1.4.2

Debt service ratio for mortgage loans, auto loans and consumer loans extended to individuals



Source: Central Bank data

An analysis of debt burden indicators by type of loan indicates that the debt service ratio for **auto loans** remains significantly higher compared to other loan types. Specifically, in 2023, the debt service ratio for car loans was **58,8%**, which indicated an increase of **7,8 p.p.** from 2022.

Despite the extension of the average loan repayment period for **auto loans** in 2023 (*from 3,8 to 4,3 years*), and an increase in monthly wages (*by 17,2 p.p.*), the escalation in household debt burden for this loan category is attributable to a surge in the average loan size per borrower, which saw a 45% increase.

By the end of 2023, **mortgage** debt service ratio indicated **44%**. Debt burden on mortgages increased by **6,8 p.p.** compared to 2022. This rise can be attributed to an increase in loan amount per borrower, which surged by 37,8%. Factors contributed to this increase include a reduction in the average loan repayment period (*from 18 to 17,5 years*), alongside **an escalation in housing prices** in the real estate market.

Furthermore, the debt service ratio for **microloans** experienced a decrease from **8,9%** in 2022 to **7,6%** in the reporting year. Despite a notable increase in the average annual interest rate on microloans by 5,3 p.p., an extension in the average loan repayment period (*from 2 years to 2,5 years*) and a significant surge in the annual income of borrowers (*by 1,9 times*) collectively contributed to the reduction in the debt burden indicator for this loan category.

In the reporting year, the Central Bank reinforced **macroprudential policy measures** with the aim of averting a surge in the level of debt burden among households and mitigating its adverse effects on financial stability.

In particular, starting from 1st July, 2024 stringent loan-to-value (LTV) ratios have been imposed, mandating that mortgages and auto loans must not exceed **80%** and **75%**, respectively. Additionally, the payment-to-income (DSTI) ratio **for all categories of loans** must not exceed **60%**. Furthermore, commencing 1st January 2025, these regulations will undergo further tightening, with the introduction of a more stringent limit of **50%**.

2.2. Transformation processes in the banking system

In 2023, efforts continued as part of the banking system reform **to enhance legislative acts** aimed at **transforming banks** with state participation and implementing contemporary corporate governance practices within them.

In particular, amendments had been made to the Law “On banks and banking activities”, stipulating a gradual increase in the minimum authorized capital of a bank from **100 billion UZS** to **500 billion UZS** by January 1, 2025.

The introduction of this provision serves to enhance the capitalization and resource base of banks, align prudential standards for banks with international norms, and enhance opportunities for attracting foreign investment to the banking sector.

In addition, in 2023, to reinforce financial stability, enhance investment attractiveness, operational efficiency, and prepare for the privatization of state-owned enterprises, including commercial banks, as well as to attract strategic investors to the banking system, Resolution of the President of the Republic of Uzbekistan was adopted on additional measures to strengthen financial stability and accelerate the privatization process of JSCB “O‘zsanoatqurilishbank”.

The reduction of the state share in JSCIB “Ipoteka-bank”, the increase in capitalization of commercial banks and the penetration of three new banks into the banking services market contributed to a decrease in the state share in total assets of the banking sector from **78%** to **68%** in 2022, and in total banking capital from **78%** to **65%**.

In 2023, Hungarian “OTP Bank” acquired 75% of the shares of JSCIB “Ipoteka-bank” from the Ministry of economy and finance of the Republic of Uzbekistan.

In the reporting year, banks paid special attention to cooperating with international and foreign financial institutions. They collaborated with foreign experts to develop banking activities, focusing on improving corporate governance, risk management, retail services, information technology, and reducing operating expenses.

The National bank, in collaboration with major foreign banks, organized an international conference “Investor day”, in which representatives from several foreign banks participated.

JSCB “Microcreditbank” cooperated with German banks such as “Raiffeisen bank” and “ODDO BHF” for conducting treasury operations. Additionally, in collaboration with international audit organization “PricewaterhouseCoopers (PwC)”, “Financial management and treasury functions (CFO & Treasury)” of JSCB “Microcreditbank” were transformed based on international standards and practices.

In efforts to enhance operational efficiency at JSC “Asakabank”, “KPMG Tax and Advisory” organization assessed efficiency of the bank’s head office and several branches. Based on the assessment findings, JSC “Asakabank” revised its organizational structure accordingly.

“Portfolio Investments” LLC was selected as the underwriter for the initial public offering (IPO) of shares of JSC “Aloqabank” on the stock exchange.

In 2023, increased attention was also given to enhancing transparency in banking activities and **combating corruption**, practical initiatives were continued in these areas. In collaboration with the international consulting company “Deloitte & Touche”, JSCB “Microcreditbank” enhanced its risk-based internal audit, internal control service (AML/CFT), and anti-corruption control systems.

To finance large strategic investment projects, initiatives of business entities, and government programs, banks are expanding cooperation to attract resources from international finance institutions and foreign banks.

In particular, in 2022-2023, the **National Bank** reached agreements to attract resources from leading foreign banks, such as “Credit Suisse” (*100 million EUR*), China Development Bank (*1,7 billion yuan*), “Citibank” (*41,5 million USD*), The Export-Import Bank of China (*1,5 billion yuan*), “Landesbank Hessen-Thüringen Helaba” (*50 million EUR*), Hungarian Export-Import Bank (*50 million EUR*), “Societe Generale” (*50 million EUR*), “Deutsche bank” (*200 million EUR*).

JSCB “Microcreditbank” attracted funds totaling \$30 million from the Islamic Corporation for the development of the private sector, \$10 million from the International Bank for Reconstruction and Development, and \$18 million from “Halyk Bank” and “Altyn Bank” (Kazakhstan). Additionally, **JSCB “O‘zsanoatqurilishbank”** entered into an agreement with the Asian Development Bank for a credit line amounting to \$50 million.

In the reporting year, the international rating agency Moody’s elevated the credit ratings of JSCB “Agrobank”, JSC “Asakabank”, JSCMB “Ipoteka-bank”, and JSC “Aloqabank” from “B1” to “Ba3” level.

In turn, banks continued extensively utilizing contemporary technological advancements and enhancing existing information technology systems.

Specifically, to ensure transparency in the processes of accepting property as collateral for a loan, JSCB “O‘zsanoatqurilishbank” launched a program that enables online verification of appraisal activities.

To manage processes related to personnel movement, maintaining human resources records, and accounting for wages, JSC “Asakabank” implemented SAP Human Capital Management system. Via SAP Success Factors system, the bank successfully digitalized the processes of recruiting, integrating new employees into the work process, training and enhancing their qualifications, forming a personnel reserve, and establishing goal-setting and assessment procedures.

With the help of SAP DWH system, 117 bank management reports were automated and made available for practical use. To automate internal operational processes of the bank, JSC “Asakabank” developed an internal portal ANET, which enabled confirming all types of documents with an electronic digital signature.

Additionally, JSC “Aloqabank” has completed the integration of its banking payment systems with the “Sello” trading platform (marketplace). Currently, all online payments on this trading platform are processed through a specialized module of the bank. In July 2023, the option to purchase goods from the “Sello” trading platform was introduced

JSCB “Turonbank”, in collaboration with the international payment system MasterCard and the travel agency “Tourist-uz”, introduced special co-branding cards and the bank launched Visa & Humo co-branding cards.

In 2023, JSCB “Turonbank” and JSCB “Microcreditbank” launched new mobile applications for individuals (“MyTuron” and “Marvarid”). Through the “MyTuron” application, users can obtain an online microloan within six minutes without visiting the bank and access more than **30** types of banking services after completing identification using FaceID technology. The “Marvarid” application offers access to over **36** online banking services.

To stimulate “green” financing, macroprudential requirements for credit products targeting this sector have been facilitated. As a result, the following credit products have been introduced:

- **Green product loans - designed for the population** to facilitate the purchase of solar photovoltaic stations, solar water heaters, wind generators, micro and small hydroelectric power stations with a capacity of up to 1 MW, equipment and devices for the production of biogas, renewable energy devices, energy-saving systems, and household energy-efficient gas burners and boilers.

- **Green energy microloan – designed for small and medium-sized businesses** aiming to install solar panels and establish charging stations for electric vehicles.

JSCB “O‘zsanoatqurilishbank” issued 5-year international “**green**” bonds with a total value of \$100 million.

International financial institutions including the International Finance Corporation, the Development Bank of Austria, the Asian Infrastructure Investment Bank, the German Development Finance Institute participated as investors, and the French bank “Societe Generale” as organizer in this initiative.

Furthermore, JSCB “O‘zsanoatqurilishbank” partnered with “Standard & Poor’s” rating agency to pursue an international ESG (Environmental, Social, and Governance) rating. Additionally, the bank is implementing a social and environmental risk management system with technical assistance from the EBRD.

2.3. Infrastructure of credit and payment organizations

2.3.1. Existing credit and payment organizations

As of January 1, 2024, the number of commercial banks operating in the country constituted **35**, of which **10** – with state participation, **19** – private, **6** – banks with foreign capital.

In order to expand the scope of banking services in 2023, joint-stock companies “Apex bank”, “Hayot bank” and “Yangi bank” were granted licenses to carry out banking activities.

Number of branches of commercial banks reached **696**, mini-banks – **69**, banking service offices – **1 747**, 24/7 bank branches – **3 723**.

In 2023, **2** microfinance organizations, **5** pawnshops, and **10** payment organizations commenced their activities, while **8** payment organizations, **2** microfinance organizations, and **2** pawnshops had their licenses revoked in for violating legal requirements and were excluded from the register of accounts.

As of January 1, 2024, the number of **non-bank credit organizations** operating in our republic constituted **169** (*microfinance organizations – 84, pawnshops – 84, and 1 mortgage refinancing company*), payment operators – **3**, payment organizations – **49** and credit bureaus – **2**.

2.3.2. Activities of the State register of credit information, Credit bureau and Pledge register

Increasing competition between banks and the expansion of digital banking services, data exchange plays a crucial role in reducing information asymmetry in the banking system. This is particularly important for accelerating the processes of scoring clients and fully assessing their solvency.

The credit information exchange system encompasses the State register of credit information of the Central Bank, as well as credit bureaus such as the “Credit information analytical center” (*hereinafter referred to as CIAC*) and “Credit information services CRIF”.

The State register of credit information contains data on credit (*leasing, factoring*) applications received by commercial banks, as well as concluded and performed transactions under these agreements.

As of January 1, 2024, the number of active credit transactions with debt increased by 35,5% compared to the corresponding period in 2023, reaching 5,6 million, while the number of borrowers increased by 24,1%, totaling 4,1 million.

Figure 2.3.2.1

Number of existing loan agreements

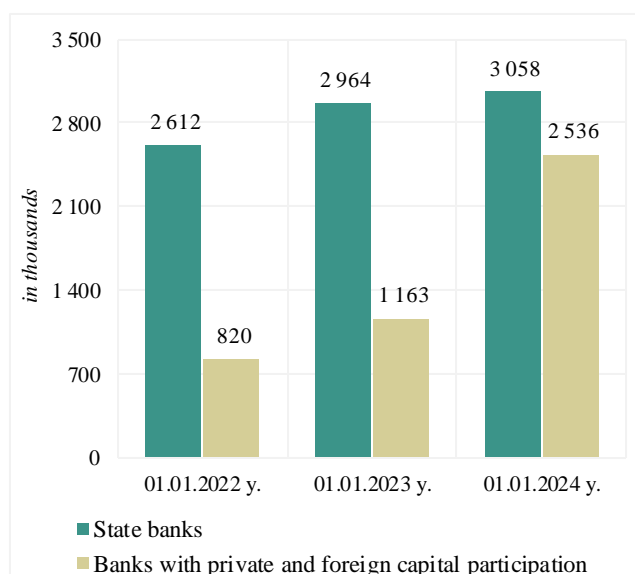
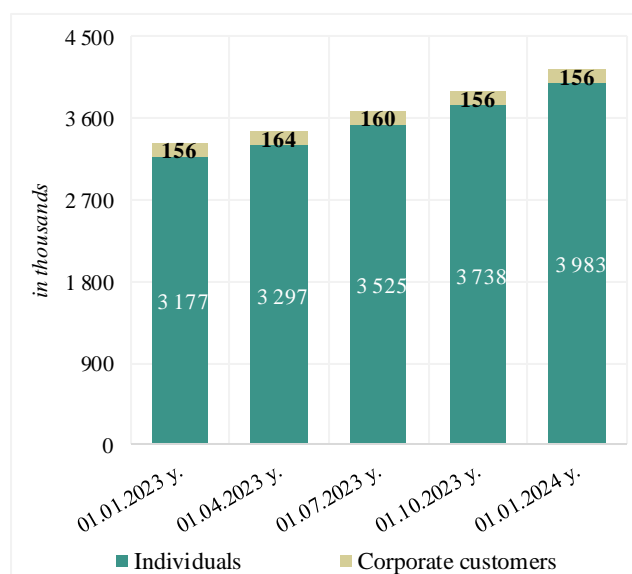


Figure 2.3.2.2

Number of current borrowers



Source: Central Bank data

In the reporting year, there was a structural change in the distribution of existing credit transactions by the type of ownership of banks. The share of loan agreements related to **state-owned banks** decreased to **54,7%** compared to 71,9% in 2022, while **the share of banks with private and foreign capital** increased from 28,1% to **45,3%**.

As of January 1, 2024, 96,2% of all borrowers were **individuals**, while 3,8% are **corporate clients**. 53,6% of total individual borrowers are men, and 46,4% are women (*the share of women increased by 1,8% compared to the previous year*).

When classifying the number of existing agreements with debt by type of loan, compared to 2022, the number of **educational loans** doubled, **microloans** by 1,5 times, **auto loans** by 1,4 times, **credit cards** by 1,4 times, **microcredits** by 1,3 times, and **mortgages** increased by 1,1 times.

In 2023, the modernization of the software complex of the State Register of Credit Information was completed, and the exchange of information was entirely launched within the framework of the new system.

Building upon this software package, a modern analytical complex (*Business Intelligence*) was launched, facilitating in-depth data analysis. Additional software modules were introduced into practice to ensure the automatic generation of reports and analytical data.

This expansion broadened the possibilities for real risk assessment of the loan portfolio of commercial banks and the utilization of register data for analysis and statistics.

Figure 2.3.2.3

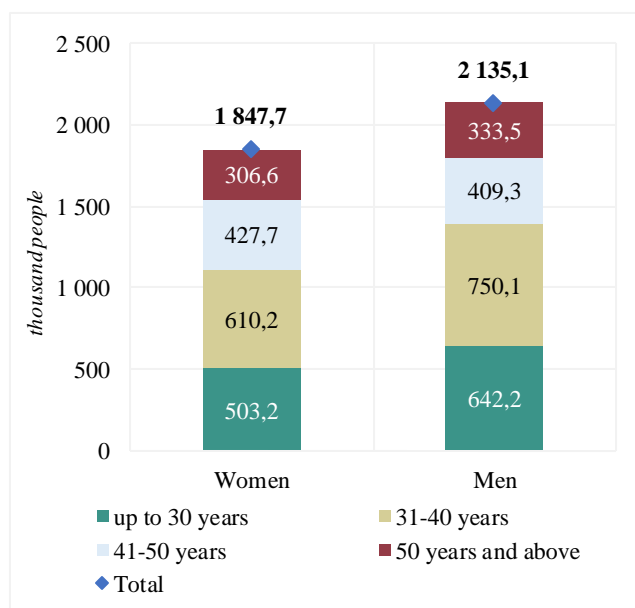
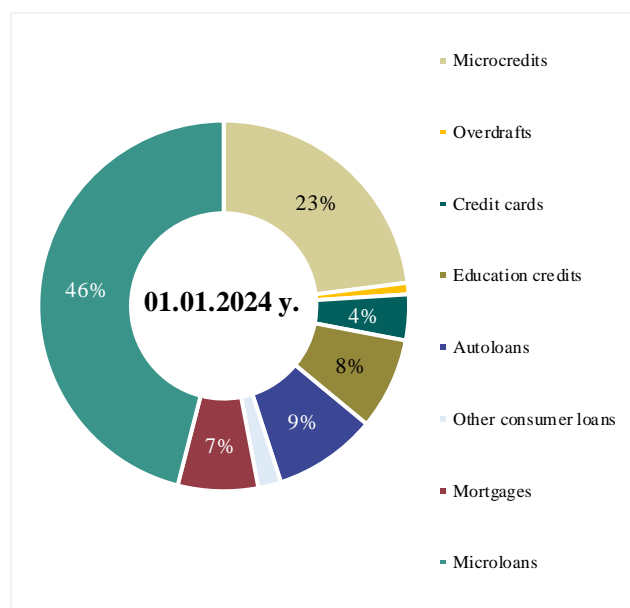
Number of individuals with credit

Figure 2.3.2.4

Share of active credit transactions of individuals

Source: Central Bank data

Simultaneously, to ensure compliance of data with balance sheet indicators and the reliability of information on loans, a regular inventory system has been established leveraging appropriate programming languages.

In 2023, the credit bureau “CIAC” continued to enhance the practice of obtaining credit information by subjects of credit information, namely, the population and business entities, remotely online through the portal of the credit bureau “CIAC” (*portal.infokredit.uz*) and the public services portal (*my.gov.uz*).

In particular, in 2023, the number of credit history inquiries obtained from the information base of the CIAC credit bureau nearly doubled and reached **506,4** thousand.

As of January 1, 2024, the CIAC database contains information on 15,4 million subjects of credit information (*individuals and legal entities*), of which 93,9% (*almost 14,5 million*) are individuals and the remaining 6,1% (*942 thousand*) are legal entities.

In 2023, the number of credit information users who entered into agreements on the exchange of credit information with CIAC increased by 151, reached **630**.

The number of **credit information providers** to the credit bureau increased by 148, reached **637** as of January 1, 2024. Currently, the bureau offers more than 50 types of credit reports to banks and non-bank credit organizations.

Table 2.3.2.1

Number of users of credit information, in piece.

Organisations	2019 year	2020 year	2021 year	2022 year	2023 year
Commercial banks	30	32	33	31	35
Microfinance organisations	55	59	68	83	84
Pawnshops	60	62	70	80	84
Lease organisations	3	5	8	20	31
Insurance organisations		1	1	4	8
Retailers	13	70	175	256	381
Other				5	7
Total	161	229	355	479	630

Source: Central Bank data

In 2023, banks and non-bank credit organizations received a total of 62,8 million credit reports from CIAC, of which, 41,8 million were from commercial banks, 17,9 million from non-bank credit organizations, 2,6 million from “e-auksion”, “oila-kredit”, and other platforms, and 506,4 thousand were from individuals and legal entities.

In the reporting year, the **collateral registry** database was integrated with the payment organization “**Click**” to enhance convenience for users of the collateral registry and expand the ability to accept payments from individuals.

Through “Notary” information system, commercial banks and credit organizations were provided with the opportunity to automatically cancel prohibitions on real estate and vehicles purchased on the primary market after full repayment of credit debt.

As of January 1, 2024, the number of users of the collateral register reached **1 279**, increasing by **383** compared to 2022. Additionally, the number of new entries in the collateral register about rights to collateral property made by users exceeded **593** thousand. Commercial banks submitted about **131** thousand prohibitions on pledges to the automated information system of the Ministry of Justice – “Notary” through the pledge registry website and provided more than 80 thousand information on property conditions.

As of January 1, 2024, the total number of actual records in the collateral registry database increased by 1,2 million compared to 2022, totaling almost **1,6** million, with more than **79,6** thousand changes made to existing records.

Additionally, approximately **50** thousand extracts from the pledge registry were provided to users, and more than **224** thousand entries were deleted from the Pledge registry.

2.3.3. Improving the system of guaranteeing deposits of the individuals

In addition to ensuring full repayment of household deposits on demand and offering attractive types of deposit products, guaranteeing the return of funds held in banks play a crucial role in strengthening public confidence in banks.

In 2023, significant efforts were directed towards reforming the deposit guarantee system, aimed at ensuring long-term stability of the banking financial system and aligning it with international standards and best practices from around the world.

To regulate deposit guarantee relationships in banks and ensure the protection of depositors' rights and interests in accordance with international standards such as the "Basic principles of an effective deposit guarantee system", a new bill titled "**On guarantees for the protection of deposits in banks**" has been developed.

This encompasses the activities of the deposit guarantee agency, the guarantee system, the participation of banks in the guarantee system, sources of funds from the deposit guarantee fund, objects of guarantee, the amount of guaranteed deposits, and the procedure for compensating them.

It is worth noting that the volume of calendar contributions to the Fund for guaranteeing citizens' deposits in banks (*hereinafter – Fund*) increased by 1,6 times compared to 2022, reaching **666,1** billion UZS.

The amount of calendar contributions received since the beginning of the Fund's activities as of January 1, 2024 amounted to **2,0** trillion UZS.

In 2023, a total of 2,1 trillion UZS of funds returned to the Fund from calendar contributions received from banks and income were invested in income-generating assets which includes 1,2 trillion UZS in government securities, 45 billion UZS in bonds for Mortgage refinancing company of Uzbekistan, with the remainder placed in deposits and certificates of deposit of commercial banks.

As of January 1, 2024, the total volume of investments of the Fund increased by almost 1,0 trillion UZS or **1,5 times** compared to the beginning of the year and reached **3,1** trillion UZS, and income from these investments amounted to 457,6 billion UZS.

2.4. Performance of non-bank credit organisations

In 2023, significant emphasis was placed on broadening the utilization of microfinance services, enhancing their appeal among both households and business entities. As a result, there was a notable rise in the presence of non-bank credit institutions within the microfinance market.

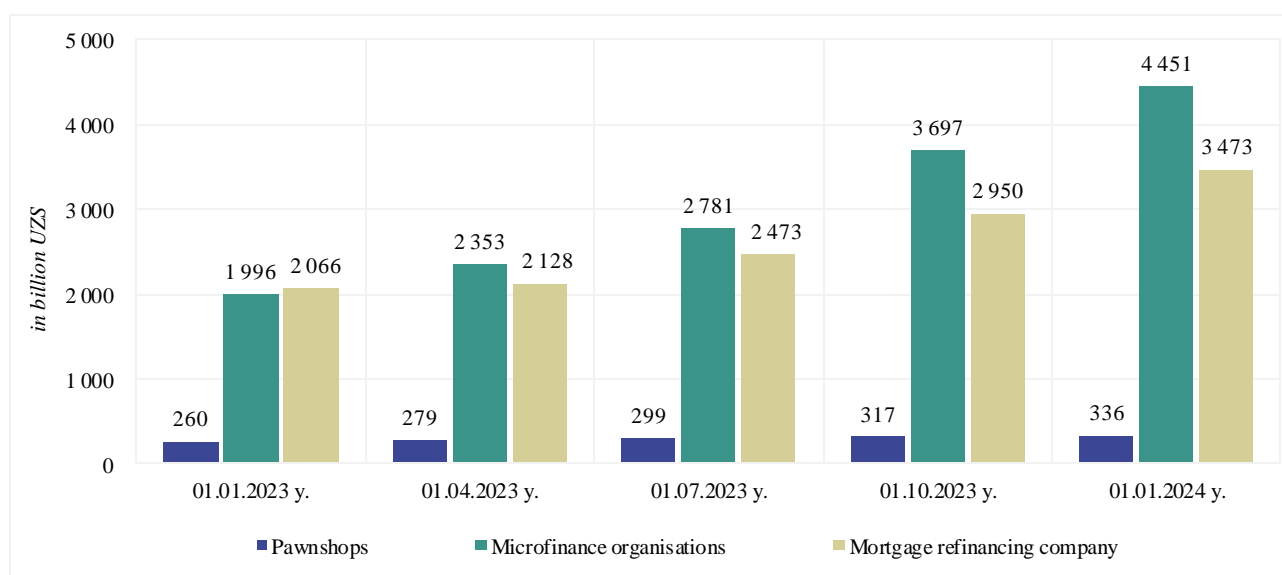
As of January 1, 2024, the total number of NCO (Non-bank credit organisations) constituted 169, by region, in the city of Tashkent there was 79 NCO, in Fergana region – 22, in Bukhara region – 15, in Tashkent region – 14, in Andijan region – 9 and in other regions – 30.

In 2023, assets of NCO increased nearly **1,9 times**, reaching **8,3 trillion UZS**. Concurrently, the assets of **microfinance organizations** increased by **2,2 times** (*2,5 trillion UZS*), and the assets of pawnshops grew by **29%** (*76 billion UZS*), resulting in total volumes of **4,5 trillion UZS** and **336 billion UZS**, respectively.

The increase in the volume of assets is primarily attributed to the rise in extended loans by microfinance organizations, amounting to **2,3 trillion UZS**, and by pawnshops totaling **65 billion UZS**.

Figure 2.4.1

Dynamics of assets of NCO



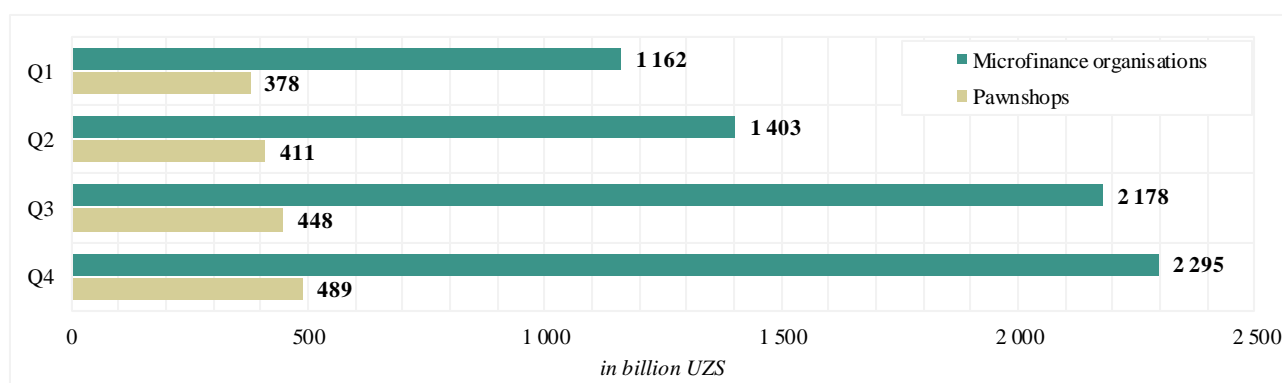
Source: Central Bank data

The total assets of the **Mortgage refinancing organization** increased **1,7 times** (*by 1,4 trillion UZS*), amounting to **3,5 trillion UZS**.

In 2023, the **volume of microfinance services** provided by microfinance organizations and pawnshops increased **1,9 times** compared to 2022, reached **8,7 trillion UZS**.

Figure 2.4.2

Dynamics of loans extended to NCO in 2023

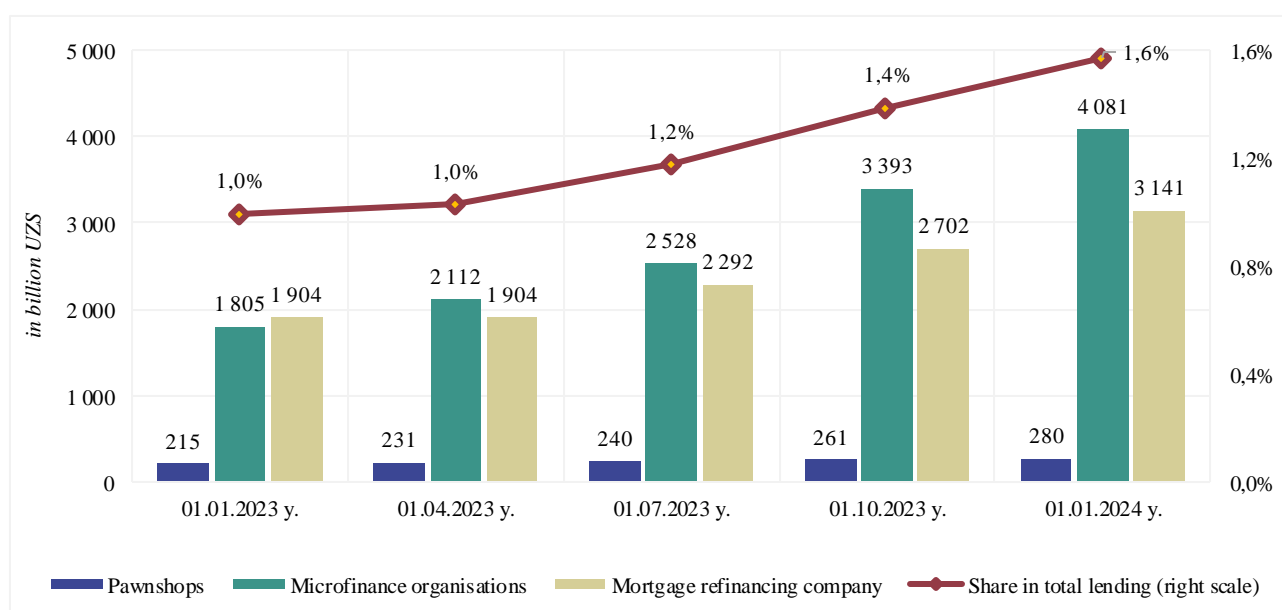


Source: Central Bank data

As of January 1, 2024, the total balance of microfinance services (4,4 trillion UZS) increased **2,2 times**, while the balance of credit investments of **microfinance organisations** (4,1 trillion UZS) increased **2,3 times**, and **pawnshops** (280 billion UZS) – by 30%.

Figure 2.4.3

The balance of loan investments and its share in the total volume of lending of NCO



Source: Central Bank data

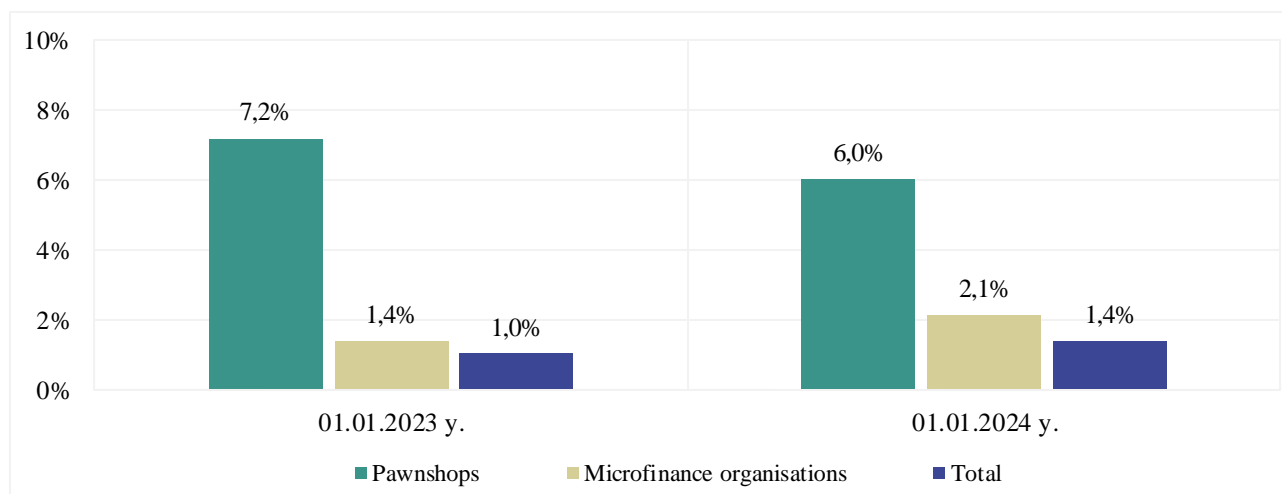
In turn, the balance of funds allocated to commercial banks by the **Mortgage refinancing company**, aimed at addressing the growing housing needs of the population, increased by **65%** and reached **3,1 trillion UZS**.

In 2023, the **balance of total credit investments** by NCO increased **1,9 times** compared to 2022, reached **7,5 trillion UZS**, which constitutes **1,6%** of the total lending volume of all **credit organizations**.

The **balance of microloans** issued by NCO to individuals **doubled** compared to 2022, reached **3,9 trillion UZS** as of January 1, 2024. The **balance of microloans** extended to business entities increased **8-fold** to **466 billion UZS**, while the volume of **leasing services** rose **3,5 times** to **8,3 billion UZS**.

Figure 2.4.4

The share of non-performing loans of NCO



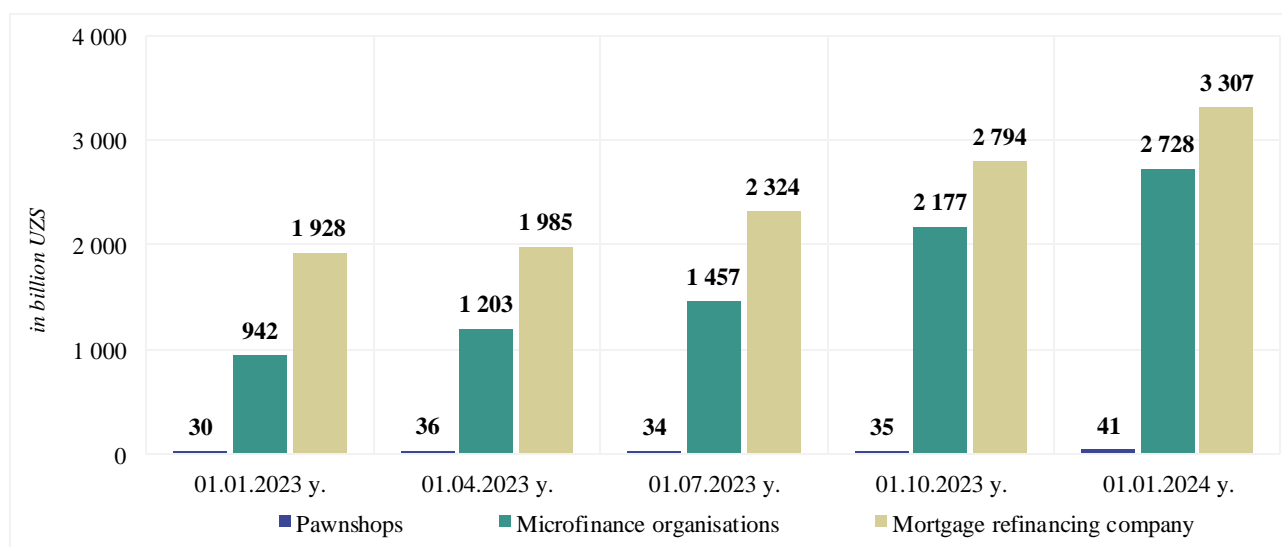
Source: Central Bank data

The share of non-performing loans (*NPL 90+*) of NCO increased by **0,4 p.p.** compared to the beginning of 2023 and as of January 1, 2024 reached **1,4%** or **104 billion UZS**.

In particular, non-performing loans (*NPL 90+*) in **microfinance organisations** increased by 0,7 p.p. to **2,1%**, (*balance of 88 billion UZS*), while in **pawnshops**, decreased by 1,2 p.p. to **6%**, (*balance of 17 billion UZS*). Notably, there were no non-performing loans in mortgage refinancing organization.

Figure 2.4.5

Dynamics of total liabilities of NCO



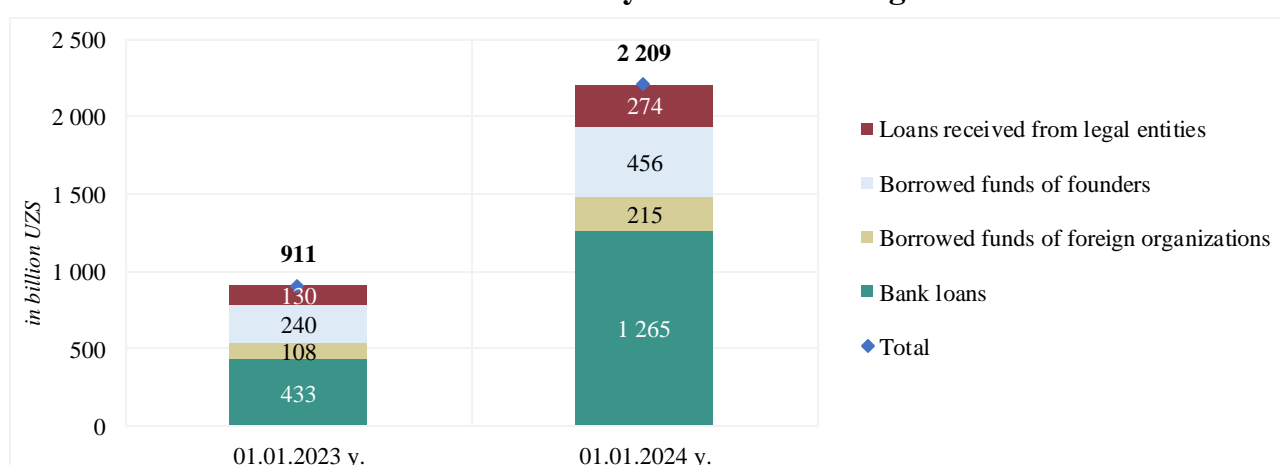
Source: Central Bank data

In 2023, the **total liabilities** of NCO increased by **2,1 times**, constituted **6 trillion UZS**. Specifically, the **liabilities of microfinance organizations** rose by **2,9 times** to **2,7 trillion UZS**, the **liabilities of pawnshops** - by **37%** to **41 billion UZS**, and the **liabilities of the Mortgage refinancing company** grew by **1,7 times** to **3,3 trillion UZS**.

The primary driver of the growth in liabilities was a **1,8-fold** increase in raised funds (*2,3 trillion UZS*). Specifically, within the structure of liabilities of microfinance organizations, bank loans increased by 2,9 times – to **1,3 trillion UZS**, debt funds from founders grew by 1,9 times – to **456 billion UZS**, and debt funds from legal entities rose by 2,1 times – to **274 billion UZS**.

Figure 2.4.6

Balance of funds raised by microfinance organizations

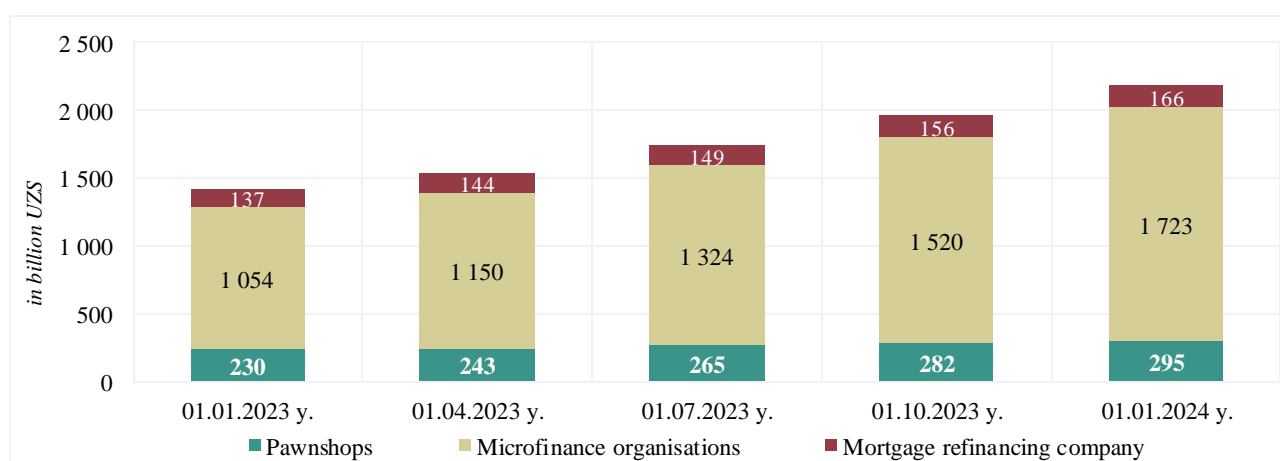


Source: Central Bank data

Additionally, funds raised from international financial institutions **doubled** – to **215 billion UZS** in microfinance organizations and increased by **1,5 times** – to **2,9 trillion UZS** in the Mortgage refinancing company.

Figure 2.4.7

Dynamics of the total capital of NCO



Source: Central Bank data

The total capital of **microfinance organizations** increased by 64% – to **1,7 trillion UZS**, while the total capital of **pawnshops** grew by 28% – to **295 billion UZS**. Similarly, the total capital of **the Mortgage refinancing company** increased by 21% – to 166 billion UZS.

Table 2.4.1

Financial indicators of NCO at the end of 2023, billion UZS

Structure of income and expenses	Total	Microfinance organisations	Pawnshops	Mortgage refinancing company
Interest income	1 884,2	1 364,1	201,9	318,2
Interest expenses	591,6	316,5	5,7	269,4
Non-interest income	377,5	326,5	51,0	0,01
Non-interest expenses	96,1	85,2	8,5	2,4
Other expenses*	745,5	614,0	116,2	15,3
Net income	828,4	674,9	122,5	31,1

Source: Central Bank data

*Other expenses include operating expenses, taxes and asset provisions.

The increase in the total capital of NCO was mainly due to an increase in authorized capital by **292 billion UZS** (*an increase of 39%*) and retained earnings by **71 billion UZS** (*64%*).

The total income of NCO amounted to **2,3 trillion UZS**, and the share of interest income in its structure was **83%**.

The total expenses of NCO increased by **570 billion** (*66%*) UZS, reached **1,4 trillion UZS**. **41,3%** of the total expenses or **591,6 billion UZS** were interest expenses, with the majority (*417 billion UZS*) allocated to interest payments on bank loans.

The expansion of economic opportunities has heightened demand for microfinance services, underscoring the necessity to cultivate and elevate the market for these services. This reinforces the role and significance of microfinance in fostering entrepreneurship.

In order to enhance the role and share of microfinance services in developing entrepreneurship, pertinent resolutions passed by the President of the Republic of Uzbekistan. Practical efforts are underway to enhance accessibility of microfinance services, offer financial support to entrepreneurial initiatives among households, and extend the utilization of these services across various regions.

To promote establishment of microfinance organizations and microfinance banks, which are a **new “chain” in the provision of microfinance services**, two training seminars were conducted to the managers and employees of the financial institutions. Additionally, in 2024, it has been decided to hold 20 more conferences, seminars, and roundtable discussions.

These events are organized in collaboration with prestigious international organizations such as the **International Finance Corporation, European Bank for Reconstruction and Development, and the Asian Development Bank** which involve experts with extensive experience in the microfinance sector.

Additionally, credit institutions are initiating “**First step to business**” program, designed to stimulate entrepreneurship among **individuals without a credit history**. They are also introducing **microfinance banking products** featuring classified loan amounts to stimulate business expansion and create additional employment opportunities for borrowers with established **positive credit history**.

2.5. Regulation and supervision of the activities of credit and payment organizations

2.5.1. Regulation and supervision of commercial banks

Due to economic instability in recent years, risks related to global financial stability require improvement of supervisory mechanisms in ensuring stability of banking system of our country.

To achieve this goal, in 2023, efforts continued to enhance the regulation of credit institution’ activities based on international standards in banking supervision and **recommendations from the Basel Committee**.

Specifically, based on the recommendations of the **Basel Committee** and insights from foreign jurisdictions, new requirements for the risk management systems of banks and banking groups have been implemented.

Thus, the risk management system in banks, which is based on the “**three lines of defense**” method, determined bank’s **supervisory board and committees under the supervisory board**, as well as **structural units** responsible for risk management.

Additionally, requirements have been established for the management of credit, operational, market, and liquidity risks, along with guidelines for identifying and managing problematic assets within the **credit risk management framework**.

As part of these requirements, banks are mandated to prepare consolidated financial and supervisory statements, the consolidation of balance sheets for financial organizations within the banking group will be prepared in accordance with International Financial Reporting Standards (IFRS).

Furthermore, in 2023, testing of the methodology for identifying systemically important banks was completed. This methodology is based on **9 indicators** grouped into **4 criteria** and, the implementation of this practice was commenced to enhance the effectiveness of bank supervision processes.

In the next stage, there are plans to consider **implementing additional premiums to prudential standards** in accordance with legislation for banks identified as systemically important.

To enhance the practice of conducting audits in banks and banking groups, improvements have been made based on recommendations and standards from the Basel Committee and insights from international practices. These enhancements include refining the procedures for conducting audits in banks and banking groups, as well as establishing requirements pertaining to the issuance of auditor qualification certificates necessary to conduct audits in banks.

This procedure introduces requirements aimed at ensuring the independence and objectivity of the audit organization conducting **audits for banks**. It also includes norms designed to enhance audit efficiency and streamline the relationship between the bank's audit committee and the audit organization throughout the audit process, addressing potential challenges proactively.

During the reporting year, requirements were approved for commercial banks concerning the acquisition and ownership of real estate and other property, as well as for the acquisition of shares or equity stakes in the authorized capital of legal entities.

Under this provision, definitions have been established for real estate and other property essential for conducting banking activities, as well as for property whose use is non-essential. Requirements have been set for their acquisition and ownership, alongside **prudential standards** governing the total value of real estate and other property.

To align with newly adopted legislation, the Central Bank has approved revised **procedures for banks charging interest** on loans, microloans, deposits, and securities.

This document specifies the procedure for recognizing interest income on loans (*microloans*) and financial instruments purchased at par value, as well as interest expenses on deposits and borrowed funds, utilizing the "accrual" method of accounting.

To enhance the financial stability of the banking system through improved calculation of credit risk, relevant adjustments and additions have been made to the requirements for capital adequacy of commercial banks.

Specifically, amendments have been introduced regarding the risk assessment of loans provided to individuals for purchasing cars as well as the Central Bank has established risk categories based on the annual interest rates applied to loans extended to both individuals and legal entities.

Simultaneously, to enhance the efficiency of the Central Bank's supervisory functions over credit institutions, a procedure for the formulation and utilization of reasoned judgments by the Central Bank has been approved.

A reasoned judgment is formulated by the relevant supervisory unit of the Central Bank concerning credit institutions. This is based on information obtained during supervision from individuals, legal entities, international organizations, government bodies, foreign supervisory authorities, and other publicly available sources.

In order to further improve the procedure for calculating the debt burden by credit institutions, relevant additions and modifications have been made to the regulations governing the management of individual borrowers' debt burdens.

In addition to implementing the practice of accounting for other payments in the calculation of the daily maximum rate on loans (including microloans) extended to individuals, excluding interest-bearing ones, guidelines have been specified. These stipulate that the aggregate of interest, commissions, penalties, and other financial obligations should not exceed half of the annual debt amount. Furthermore, instructions have been provided on utilizing these formulas to streamline the calculation process.

In the reporting year, alongside enhancing the regulation and supervision of banks, improving effective corporate governance and risk management, efforts were directed towards enhancing mechanisms for market exit and liquidation.

Specifically, the project of law **“On the resolution and liquidation of banks”** was developed in alignment with standards set by the Financial Stability Board (FSB). It outlines the objectives and principles of bank resolution, resolution tools, mechanisms for resolution financing, and procedures for both voluntary and forced liquidation of banks.

According to Resolution 63 dated April 29, 2023, “On further improvement of the system for satisfying the claims of creditors secured by collateral”, specific tasks have been established. These include simplifying procedures for the auction sale of pledged property, enhancing practices for extrajudicial collection of obligations secured by collateral, and ensuring priority rights of creditors concerning the collateral provided as security.

In the reporting year, efforts to enhance the accounting and reporting systems in commercial banks were continued, alongside initiatives to accelerate the transition to IFRS.

In particular, to align the “chart of accounts” in commercial banks with IFRS and ensure the transparency of information by accurately reflecting financial transactions in bank accounts, appropriate changes and additions were made to this chart of accounts. Specifically:

- new separate accounts were established for recording settlement forward contracts, the creation of individual reserves for each asset classified as “standard,” interest income and expenses on derivative instruments, client funds for financing investment projects and “**green energy**” projects, and for managing foreign exchange settlements based on banking practices;
- taking into account the taxation of 20% of reserve expenses, a separate income account in order to prevent repeated taxation of these amounts;
- separate accounting of part of the obligations for the Instant payment systems and the Clearing system of the Central Bank;
- sample records of accounting entries for accounting transactions with financial assets, low-value items, cash transactions and securities were added.

Also in the reporting year, the procedure for opening, maintaining and closing bank accounts was revised in order to expand the list of persons entitled to open bank accounts. Including:

- remote opening of bank accounts is allowed, not only in the process of state registration, but also in the process of activities of individual entrepreneurs and legal entities whose founders are residents of the Republic of Uzbekistan;
- banks can establish the form and number of cards to be submitted with sample signatures in accordance with internal documents;
- if electronic storage of documents submitted for opening an account is possible, the right not to store paper copies of them;
- the use of a facsimile signature is permitted for persons with disabilities;
- providing access to a business entity through the bank that opened the main account to obtain a list of all its bank accounts from the National information base of bank depositors;
- JSC “National clearing center” and JSC “Central securities depository” have the opportunity to open a correspondent account with the Central Bank for settlements;
- foreign investors selling (*buying*) corporate bonds and shares at organized auctions are given the opportunity to open bank accounts.

In 2023, the Central Bank introduced separate suspensions of operations, **penalties** and other measures against banks that violate the requirements established by law.

In the reporting year, based on the decisions of the banking supervision committee of the Central Bank, **22** commercial banks and **4** microfinance organizations were fined a total of **3** billion UZS.

In this case, fines in the amount of:

- **1,6 billion UZS** or **55,5%** for failure to comply with the requirements of economic standards (*10 banks*);
- **542 million UZS** or **18,2%** for violation of the rights of consumers of banking services (*16 banks*);
- **530 million UZS** or **17,8%** were collected from banks for failure to comply with the requirements established by law (*4 banks*).

Due to non-compliance with the Central Bank's regulations and established supervisory standards and norms related to currency positions, **7 banks** faced sanctions in the form of **temporary restrictions** on practices such as attracting deposits, issuing loans (*including lease, factoring, and opening unsecured letters of credit and guarantees*).

Additionally, to mitigate the negative impact of potential losses on the financial stability of banks and ensure the formation of macroprudential buffers, **22 banks** were **prohibited** from distributing profits in the form of dividends to shareholders on their common shares.

2.5.2. Regulation and supervision of the activities of non-bank credit organisations

In the reporting year, certain work was done to improve the regulations governing the activities of non-bank credit organisations.

Specifically, to enhance the role and contribution of microfinance services in fostering business development, the following key tasks were identified within the framework of relevant resolutions of the President of the Republic of Uzbekistan:

- to increase the volume of the microfinance market by at least 5 times in 2024-2026;
- to cover more than 1 million business entities with microfinance services;
- a 2-fold increase in the amount of funds raised from individuals in the resource base of microfinance organizations;
- to provide assistance in self-employment and business development to about 500 thousand people who do not have an official income through the provision of microfinance services.

Also, in order to stimulate the activities of microfinance organizations and create broad opportunities for them, the followings were approved:

- raising funds from non-residents in foreign currency and providing financial services to legal entities in foreign currency;

- raising funds from participants (*shareholders*) – individuals in an amount not exceeding twice the amount of the contribution made to the authorized capital or the nominal value of the shares they own;
- carrying out the activities of a payment organization after receiving the appropriate license.

In addition, the maximum size of microloans was increased from 50 to 100 million UZS.

To develop the microfinance services market in the regions, a series of measures has been outlined. These include establishing microfinance banks that offer fundamental banking services and implementing **a mechanism to facilitate the transformation of microfinance organizations into microfinance banks**.

In the reporting year, control of the activities of non-bank credit institutions was carried out remotely and in on-site.

At the same time, in 2023, on-site case studies of the activities of a total of 14 NCO were conducted, including 7 microfinance organizations and 7 pawnshops.

Based on the analysis, a fine of 30 million UZS was levied on 1 microfinance organization for non-compliance with regulatory requirements. Warning was applied to 11 microfinance organizations and pawnshops, while one microfinance organization and one pawnshop were removed from the register.

2.5.3. Supervision and regulation of the activities of payment organizations

During the reporting period, special attention was devoted to enhancing regulatory documents pertaining to the licensing and regulation of payment system operators and payment organizations in accordance with international standards. In particular, the following were defined:

- licensing requirements for the activities of payment system operators and payment organizations, including stipulations for founders (*participants, shareholders*), minimum authorized capital requirements, as well as organizational, technical, security, and business continuity requirements;
- the procedures for monitoring, remote supervision, and conducting inspections of the activities of payment system operators and payment organizations.

Additionally, to manage risks in this area and ensure the stable operation of payment systems, criteria for identifying **important payment system operators** have been established.

To ensure the stable operation of payment systems, regular **remote observations** were conducted to verify the compliance of payment system operators

and payment organizations with legal requirements. Based on the results of these inspections, recommendations and instructions were sent to these organizations in the following areas:

- ensuring and monitoring the stable and continuous operation of the payment system infrastructure, and adhering to the requirements of legislative documents in the field of payments and payment systems;
- establishing a permanent two-way communication mechanism between payment system participants and users of payment services;
- promptly informing participants of payment systems and users of payment services about unexpected failures or suspensions through official communication channels and the media;
- informing the Central Bank about changes in the activities of payment organizations, including sending a notification about the commencement of activities of the electronic money system operator in the prescribed manner.

In 2023, the Central Bank implemented several measures, including the temporary suspension of licenses, imposition of penalties, and other actions, in response to violations of legislative requirements by payment system operators and payment organizations.

In particular, 1 payment system operator and 1 payment organization were fined 200 million UZS for violations of legislative requirements in the field of payment systems:

- for experiencing failures and suspensions in the system, despite multiple warnings issued to ensure the stability of the payment system, a fine of **100 million UZS** was imposed.
- for failure to comply with the requirements of legislative documents on anti-money laundering and combating the financing terrorism, financing of the proliferation of weapons of mass destruction, a fine of **100 million UZS** was imposed.

Simultaneously, one payment organization was **restricted from conducting certain types of payment services and/or transactions for a period of up to six months** due to non-compliance with orders to rectify identified offenses. Specifically, inadequate measures were taken to assess and mitigate risks associated with peer-to-peer (*P2P*) transfers between individuals.

During the reporting period, the Central Bank decided to revoke the licenses of **4 payment organizations** due to their failure to commence activities **within a year** from the date of license issuance or suspension of activities for **more than six months**, additionally, licenses were revoked from **4 payment organizations** for failing to meet the minimum requirements related to authorised capital.

2.5.4. Implementation of risk-based banking supervision

In the reporting year, works were continued to improve the risk-based banking supervision system of the Central Bank.

In particular, together with experts from World Bank, the “**Guide to risk-based banking supervision**” was developed and put into practice.

As **part of the implementation** of this Guide, presentation materials were prepared based on the results of assessing the **business models, credit risk, market risk, interest rate risk, operational risk**, as well as **capital and liquidity risks** of 4 banks (*JSC “Asakabank”, JSCB “O‘zsanoatqurilishbank”, JSCB “Kapitalbank” and JSICB “Ipak yuli”*).

Based on the above approaches, thematic inspections were conducted in **23 banks**: in 18 banks to assess risks associated with prudential standards, in 17 banks to assess risks associated with payment systems, in 16 banks to assess risks associated with foreign exchange transactions, and in 5 banks to assess **risks** associated with financial monitoring activities. Additionally, **thematic inspections** were carried out at **15 non-bank** credit institutions to **assess risks** associated with their general financial condition.

The thematic inspections were directed towards **enhancing banks’ resilience** to the risks in their operations. This involved the reduction of **capital and liquidity risks**, alongside the **mitigation of risks** associated with transactions involving bank-related persons and investments in real estate.

Following the outcomes of the inspections, appropriate actions were instituted against banks reported inaccurately risk information in their prudential reports submitted to the Central Bank.

Thematic inspections were conducted at 10 state-owned banks to evaluate the potential risk of a decline in the quality of **newly issued corporate loans** to clients.

The audits revealed specific factors within individual banks that could potentially lead to future challenges with corporate loans and recommendations were formulated to **mitigate the risks associated** with these factors and minimize their impact.

An additional module has been integrated into the Central Bank's “**Matrix BI**” software, facilitating the **proactive assessment of future risks** associated with corporate loans extended by banks. This module is designed to **signal** newly issued loans to clients with existing problem debt and detect any modifications made to the terms of issued loans.

Moreover, in the fiscal year 2023, the Central Bank received a total of 2 944 requests from law enforcement agencies to engage its personnel in inspections, of these, 1 392 requests (47%) were successfully organized and carried out in accordance with the stipulated procedures.

The remaining 1 552 requests (52%), were declined for various reasons. Among these, 35 requests pertained to financial and economic inspections of enterprises and organizations, 49 were unrelated to banking activities, and 1 468 were rejected due to insufficient grounds for engaging an expert.

2.5.5. Financial monitoring, risk management associated with economic sanctions and export restrictions

Throughout the reporting year, the Central Bank continued systematic efforts aimed at monitoring and enforcing compliance by banks, microfinance organizations, pawnshops, and payment organizations with internal control regulations. This included the rigorous adherence to procedures for reporting suspicious transactions associated with money laundering and the financing terrorism (*hereinafter AML/CFT*) to the designated governmental authority.

The primary focus during this process was on identifying money laundering and terrorism financing (*ML/TF*) risks prevalent in the operations of banks, microcredit organizations, pawnshops, and payment service providers. Emphasis was placed on refining mechanisms to mitigate these risks, ensuring compliance of regulatory legal acts in the field of *ML/TF* with international standards, and enhancing the operational efficiency of systems.

In 2023, the Central Bank was actively engaged in the national risk assessment process to ensure the implementation of Financial Action Task Force (FATF) recommendations. This involvement was pivotal, especially in the context of executing the Decree of the President of the Republic of Uzbekistan dated June 28, 2021, No. PR-6252, “ On approval of the strategy for the development of the national system of the Republic of Uzbekistan for countering the legalization of proceeds from criminal activity, financing of terrorism and proliferation of weapons of mass destruction”.

An action plan has been formulated and is currently underway to mitigate *ML/TF* risks and address vulnerabilities within the national system.

Simultaneously, the outcomes of the risk assessment were disseminated to banks, non-bank credit organizations, and payment organisations to facilitate their integration into risk management practices within their operations.

It is worth noting that the Central Bank has been conducting sectoral risk assessments since 2018, leveraging the developed and approved methodology as part of technical support from World Bank, the Central Bank conducted a comprehensive assessment of risks pertaining to ML/TF within banks, non-bank credit organizations, and payment entities.

As part of the assessment, data pertaining to the types of clients served by the sectors under supervision, the products and services offered, distribution channels, and various indicators of control activities were collected, summarized, and analyzed. Subsequently, a report was developed by the Central Bank based on the assessment results and was approved by the decision of the board.

The report encompasses pertinent recommendations aimed at mitigating existing risks associated with transactions such as illegal cash withdrawals of funds from legal entities' accounts, transfers between individuals via card-to-card transactions, international money transfers, and transactions involving foreign electronic wallets. These recommendations are designed to enhance the risk comprehension of supervised organizations concerning ML/TF.

Supervision by the Central Bank in the realm of Money Laundering and Terrorism Financing (ML/TF) operates on the foundation of a risk-based approach, grounded in the risk profiles of banks, non-bank credit institutions, and payment entities.

Specifically, in the reporting year, on-site inspections were conducted in 2 commercial banks, identified with a high level of risk based on their risk profile.

In addition, during the assessment of the risk profile of supervised organizations, remote monitoring activities were conducted on issues related to ML/TF, focusing on transactions and clients deemed to pose a high risk. These activities were carried out in 17 commercial banks and 1 payment organization.

In order to address identified deficiencies in control activities, measures were implemented to establish minimum procedures for identifying suspicious transactions in commercial banks. Additionally, vulnerabilities in the banking service delivery system were reassessed as part of ongoing efforts to enhance prevention.

As a result of the control measures, actions were taken concerning 1 payment organization, which had committed errors and omissions, in the form of a fine amounting to 100 million UZS. Additionally, measures were taken regarding 19 commercial banks, including warnings about the implementation of stricter measures in the event of detected shortcomings in the future.

The Central Bank, in collaboration with the National agency for prospective projects of the Republic of Uzbekistan, devised “Methodological recommendations for implementing enhanced measures regarding Peer-to-Peer transactions and clients engaging in P2P transactions within commercial banks, payment system operators, and payment organizations with the aim to combat the illicit trafficking of crypto-assets in the Republic of Uzbekistan, as well as to prevent money laundering, terrorism financing, and the financing of weapons of mass destruction” They have been disseminated for implementation by banks, payment system operators, and payment organizations.

Simultaneously, to enhance the effectiveness of the system, industry assessments and control activities, and ensuring alignment of legislative acts with FATF recommendations, revisions and amendments were introduced to the internal control regulations for supervised organizations aimed at combating the legalization of proceeds derived from criminal activities, the financing of terrorism, and the proliferation of weapons of mass destruction.

Specifically, modifications and supplements were incorporated into the criteria and indicators of suspicious transactions in commercial banks, as well as the criteria for identifying and evaluating the risk level of clients within the internal control regulations aimed at combating the legalization of proceeds from crime, terrorism financing, and the financing of weapons of mass destruction.

Furthermore, adjustments and supplements have been integrated into the internal control regulations aimed at combating the legalization of proceeds from crime, terrorism financing, and the financing of weapons of mass destruction in payment system operators, electronic money system operators, and payment organizations. These revisions pertain to the organization of an internal control system, client due diligence procedures, definitions and assessment of risk levels, as well as criteria and indicators of suspicious transactions.

III. ACTIVITIES OF THE CENTRAL BANK IN THE FIELD OF MONETARY, CURRENCY AND COMMUNICATION POLICY

3.1. Ensuring price stability

3.1.1. Analysis of monetary conditions and instruments in 2023

Due to the Central Bank’s monetary policy actions amidst changes in foreign economic conditions and the scale of structural reforms in the national economy, coupled with the deceleration of inflation processes in 2023, monetary conditions were maintained at a relatively tight level.

Specifically, the shift of inflation towards a downward trend and the decreasing trajectory of forecasts by the end of the year enabled to decrease additional load on inflation in 2022, the policy rate was reduced to 14% from March 2023 and maintained “**relatively tight**” monetary conditions.

Tight conditions in international financial markets and depreciation of national currencies in some trading partners, pose challenges to leverage external resources to support domestic economic activity and exacerbate foreign exchange imbalances.

Figure 3.1.1.1

Dynamics of policy rate of the Central Bank

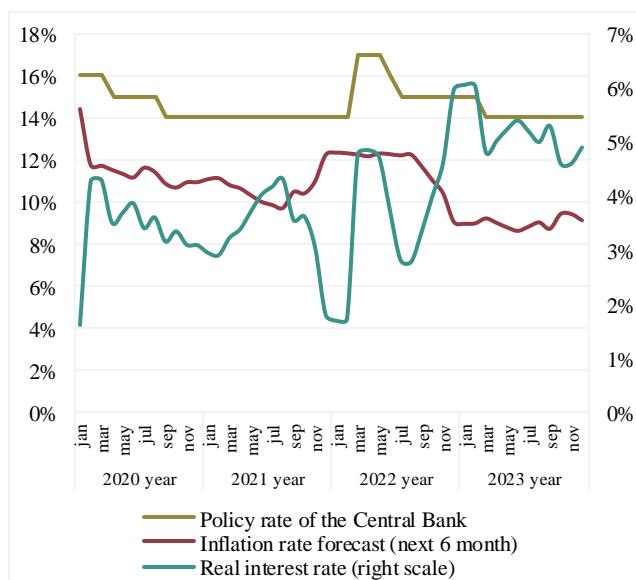
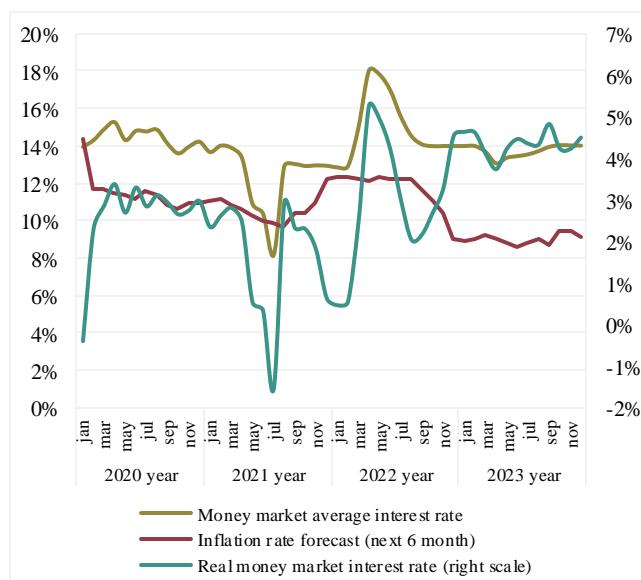


Figure 3.1.1.2

Interest rate of interbank money market



Source: Central Bank data

Maintaining the policy rate at the level of 14% per annum after the reduction in March, alongside the formation of downward dynamics in the inflation rate throughout the year, resulted in a slight increase in real interest rates in the money market, ranging from 3,7% to 4,8%. This ensured “**relatively tight**” monetary conditions in the economy.

In April, the weighted average interest rate in the overnight money market segment stood at 13%. However, due to a decrease in overall liquidity, the current rate increased to 14% by December, remaining within the interest rate corridor.

The fluctuations in interest rates in the money market were evident in the levels of interest rates on deposits and loans, as well as in the decision-making processes of business entities.

Specifically, the weighted average interest rates on time deposits of individuals in national currency were 20,5% in January-March 2023, and increased to 21,5% in December.

As a result of the relative slowdown in inflationary processes in the economy, real interest rates on these deposits increased from 7,4% at the beginning of 2023 to 11,7% in December.

Real interest rates on time deposits in national currency, calculated considering individuals' inflation expectations for the next 12 months (13-14%), remained positive at the level of 6,5-7,5%.

Figure 3.1.1.3

Interest rates on time deposits of the individuals in national currency

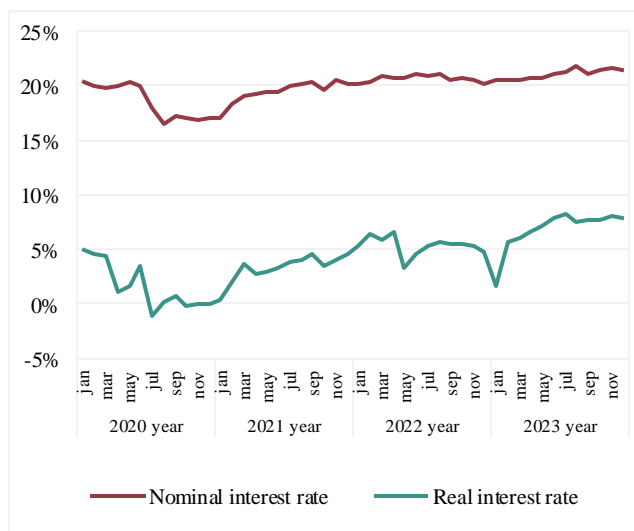
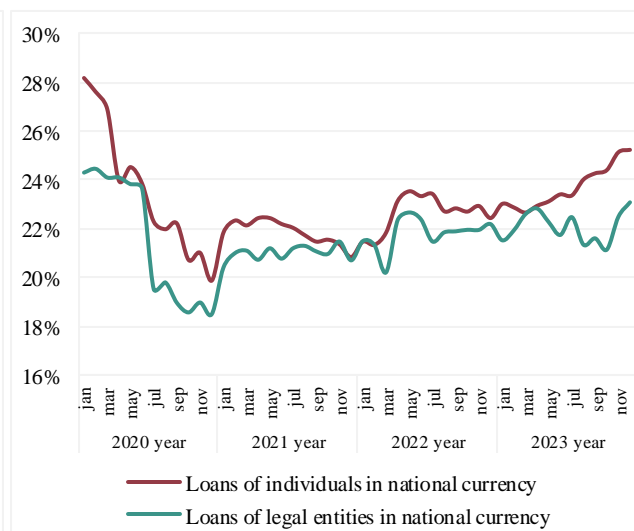


Figure 3.1.1.4

Interest rates on loans in national currency



Source: Central Bank data

The established real interest rates contributed to a significant increase in the volume of household deposits in national currency. Specifically, in 2023, time deposits of individuals in national currency increased by 1,5 times.

Amidst high demand for retail loans and a decrease in the overall liquidity surplus of the banking system, there was a slight upward trend in interest rates on loans in national currency in 2023. Consequently, in December, interest rates on loans to individuals in national currency reached 25,2%, while loans to legal entities stood at 23,1%.

In 2023, demand for operations to regulate liquidity from the Central Bank depended on the overall liquidity situation in the system. There was an increase in demand for the Central Bank’s liquidity operations due to a decline in systemic liquidity.

Since February, due to overall weakening of liquidity, there has been a significant increase in demand for overnight REPO and SWAP operations, while demand for deposit operations has declined.

Figure 3.1.1.5

Monetary operations of the Central Bank

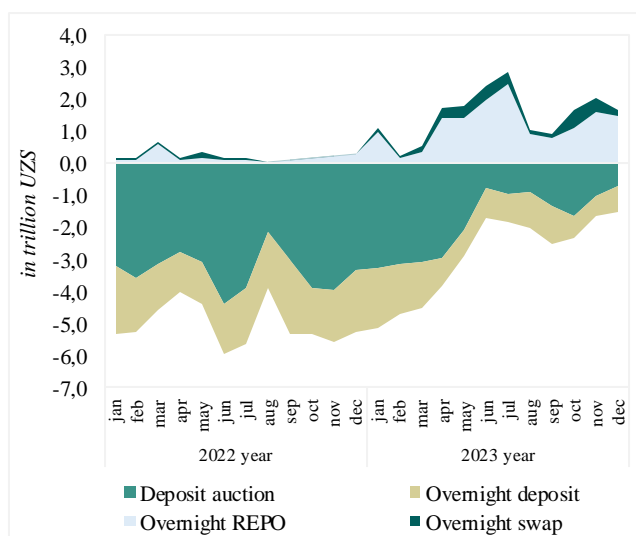
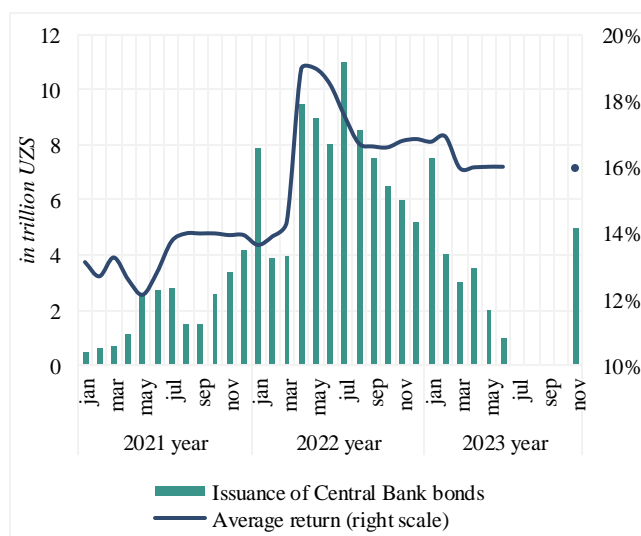


Figure 3.1.1.6

Dynamics of the Central Bank bond issues



Source: Central Bank data

In the second half of 2023, the Central Bank conducted daily liquidity provision operations (*overnight REPO, overnight swap*) with an average amount of 1,7 trillion UZS. During the same period, demand for liquidity attraction operations of the Central Bank (*overnight deposit, deposit auction*) remained relatively balanced and decreased by 1,9 times compared to the first half of the year, averaging 2 trillion UZS per day.

In 2023, Central Bank bonds worth 26 trillion UZS were issued in order to attract additional liquidity for a longer period.

From August to November, Central Bank bonds were not issued amidst a decrease in systemic liquidity in the banking system, by September, the Central Bank bonds in circulation were completely repaid.

In December, due to a seasonal increase in budget expenditures and redemptions of government securities, average daily excess liquidity of 5,7 trillion UZS was observed. To sterilize this additional liquidity, Central Bank bonds worth 4,7 trillion UZS were issued in December. As of January 1, 2024, the balance of Central Bank bonds in circulation amounted to 4,7 trillion UZS.

Overall, in 2023, short-term monetary policy instruments were actively employed to manage the overall liquidity level in the economy and there was an increased reliance on the volumes of these operations on the liquidity status of the banking system and the level of compliance by commercial banks with established standards.

3.1.2. Changes in the operating mechanism of monetary policy

In 2023, the adaptation of the Central Bank's monetary policy mechanisms to the standards of the inflation targeting regime continued.

With the support of international financial institutions and consulting companies, several changes were made to the operational mechanism of monetary policy to align it with international standards. These changes aimed to effectively regulate the liquidity of the banking system and simplify the processes of managing liquidity for commercial banks.

In accordance with the decision of the Board of the Central Bank dated December 14, 2023, No. 41/1, an opportunity was created to utilize interbank money markets and repo markets within **30 minutes** after the closing of the banking business day. Additionally, monetary operations of the Central Bank could be used within **1 hour** after the closing of the banking business day.

These changes enabled commercial banks to redistribute overall liquidity in the money markets after the end of the settlement day and then utilize overnight operations of the Central Bank. It is expected that these adjustments will significantly enhance the efficiency of liquidity management in the banking system.

Furthermore, **an intraday credit instrument** was introduced to provide liquidity to commercial banks, along with **credit auctions for up to 1 week and overnight transactions based on foreign exchange collateral**. These measures aim to prevent liquidity disruptions in banks and ensure the continuity of the payment system.

In the Central Bank's liquidity provision operations, the acceptance of collateral with a **5% haircut** has been introduced.

Corresponding changes were made to the "Operational mechanism of monetary policy of the Central Bank of the Republic of Uzbekistan" and the "Procedure for carrying out operations of the Central Bank in the money market" in line with the adjustments made to monetary policy operations. This ensured that the current regulatory legal documents are in compliance with the requirements of these decisions.

3.1.3. Analysis of interbank money market activity and interest rates

In 2023, transactions totaling 310,5 trillion UZS were carried out on the interbank money market, representing an increase of almost 2,1 times compared to 2022.

Figure 3.1.3.1

Volume of money market operations and interest rates

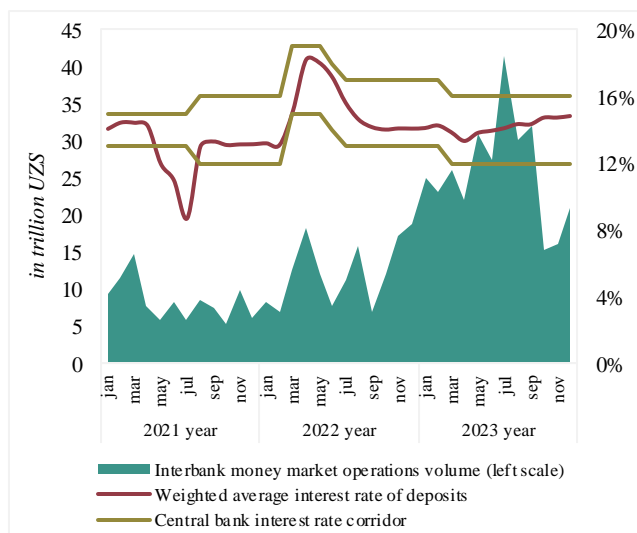
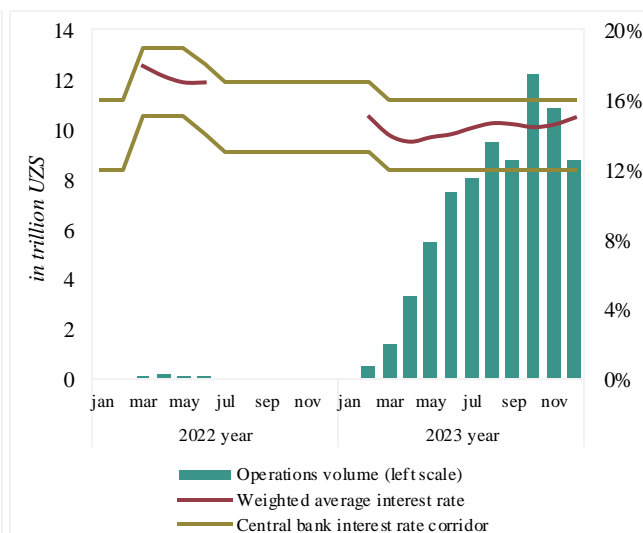


Figure 3.1.3.2

Operations of the interbank REPO market



Source: Central Bank data

In 2023, the interbank REPO market experienced significant intensification due to a reduction in the overall volume of liquidity and improvements made to the REPO market platform (based on recommendations within the framework of the IMF technical assistance program in 2023 titled “Development of the interbank Repo market”).

At the end of 2023, the volume of transactions in the interbank repo market amounted to 76,4 trillion UZS, with their share in money market transactions reaching 30% in December.

The weighted average interest rates of money market operations in the reporting period were entirely within the interest rate corridor. In the first half of the year, interest rates were generally below the policy rate, while in the second half, interest rates ranged from 14,1% to 14,8%, exceeding the policy rate.

The formation of interest rates in the money market above the policy rate is attributed to a reduction in the overall liquidity surplus in the banking system and a relative increase in long-term deposit operations in the interbank money market.

The UZONIA interest rate, the benchmark interest rate of money market, in 2023 formed within the interest rate corridor, close to the policy rate. The decrease in the spread of the UZONIA rate from the policy rate is explained by a decrease in the overall liquidity surplus and positive changes in the pricing process of banks.

Figure 3.1.3.3

Dynamics of UZONIA benchmark rate

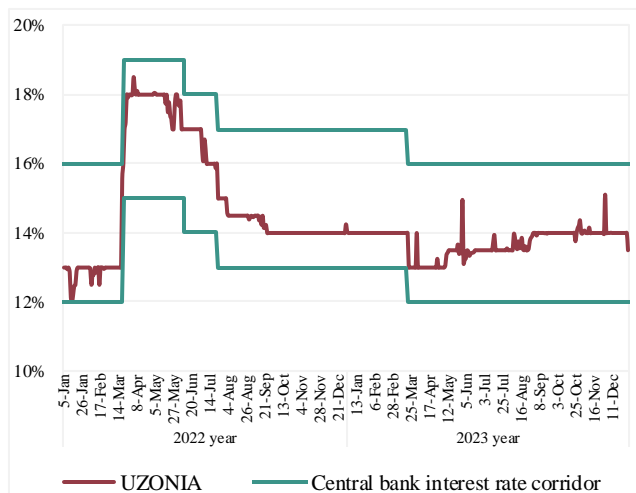
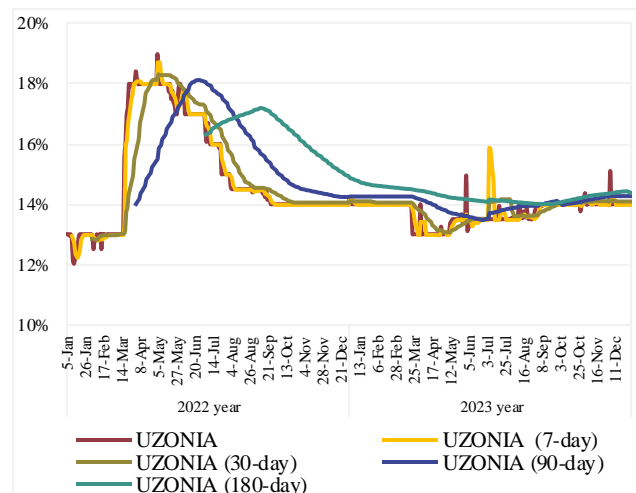


Figure 3.1.3.4

Formation of UZONIA term rates and the UZONIA index



Source: Central Bank data

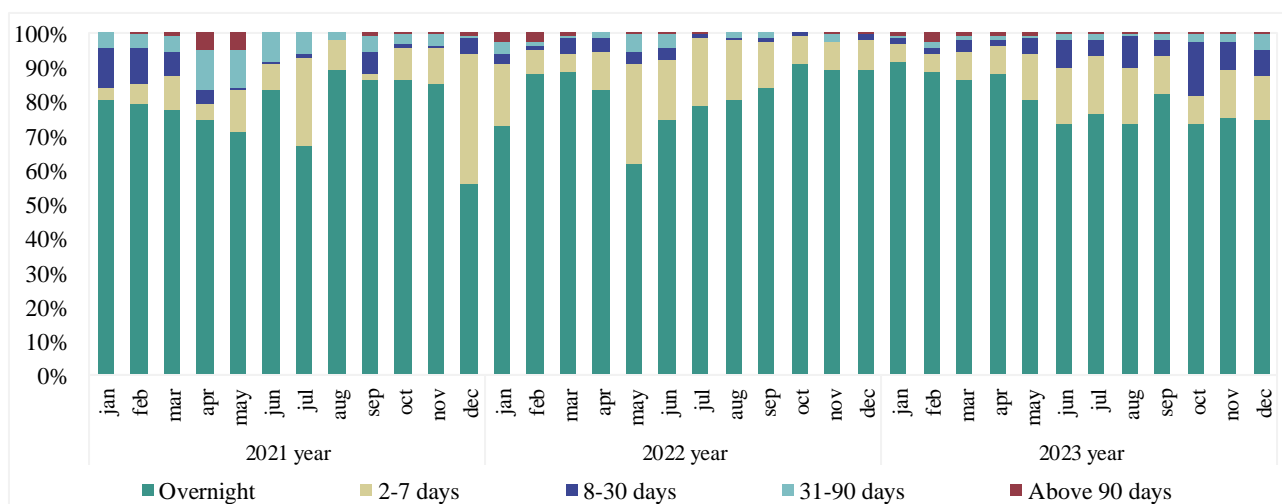
The establishment of the UZONIA rate at around 14% also contributes to aligning the cumulative values of UZONIA interest rates with different terms closer to this level.

The enhanced efficiency and activity in liquidity management by commercial banks in interbank money market is reflected in an increase in transaction volume and a reduction in their average terms. Specifically, in 2023, the average monthly transaction volume in money market increased by 2,1 times, reached 25,9 trillion UZS.

In 2023, commercial banks primarily opted to manage liquidity through overnight transactions, with 80,1% of total money market transactions corresponding to overnight deposit transactions.

Figure 3.1.3.5

Share of money market operations by duration



Source: Central Bank data

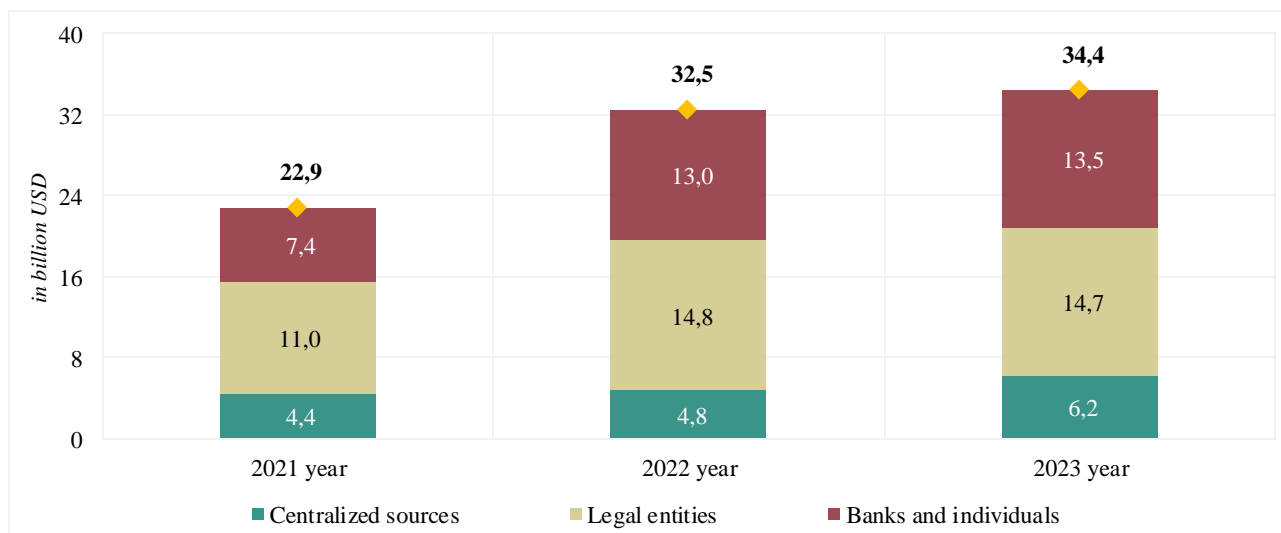
3.1.4. Overview of the domestic foreign exchange market

In 2023, the domestic foreign exchange market experienced a notable surge in the overall demand for foreign currency compared to its supply, driven by shifting external market dynamics, stringent global monetary conditions, and heightened economic activity.

In the domestic foreign exchange market in 2023, the **total supply** of foreign currency (*excluding Central Bank interventions*), reached **\$34,4 billion**. Among this supply, **\$14,7 billion (43%)** came from business entities, **\$13,5 billion (39%)** from banks and individuals, and **\$6,2 billion (18%)** was sourced through centralized channels.

Figure 3.1.4.1

Sources of foreign currency supply in the domestic foreign exchange market



Source: Central Bank data

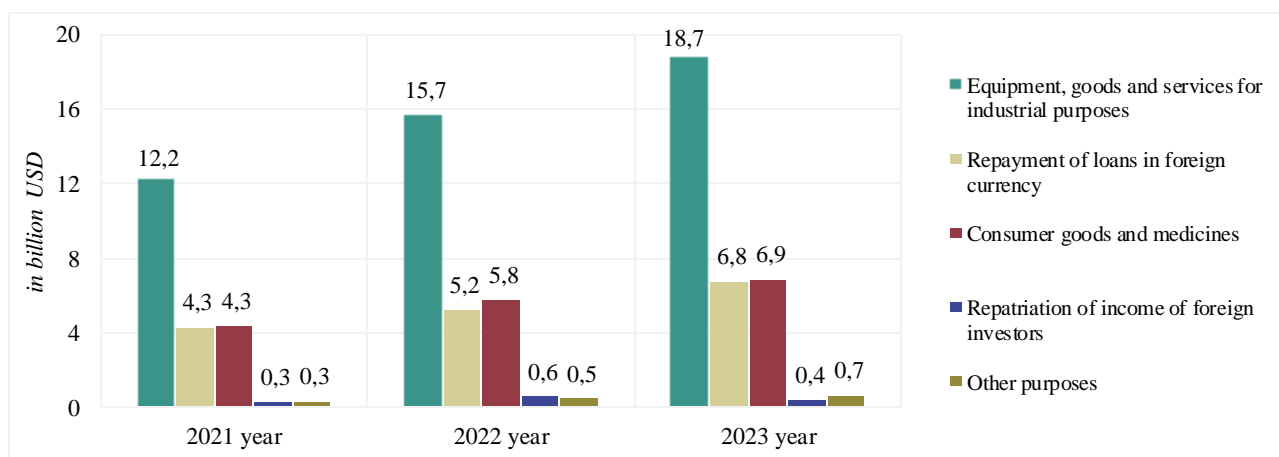
During this period, the **total demand** for foreign currency reached **\$42,5 billion**, marking a **16%** increase compared to 2022. Legal entities accounted for **78,6%** of the total demand, while individuals made up the remaining **21,4%**.

Foreign currency operations of legal entities. In 2023, the demand for foreign currency from legal entities amounted to **\$33,4 billion**, representing a **1,2-fold** increase compared to 2022. This increase was proportional to the rise in imports.

The breakdown of foreign currency purchases by legal entities in 2023 was as follows: **56%** was allocated for financing imports of equipment, raw materials for production purposes, and services, **20%** for loan repayments in foreign currency, **21%** for imports of consumer goods and medicines, **1%** for repatriation of income of foreign investors, and the remaining **2%** for other purposes.

Figure 3.1.4.2

Structure of foreign currency purchasing purposes



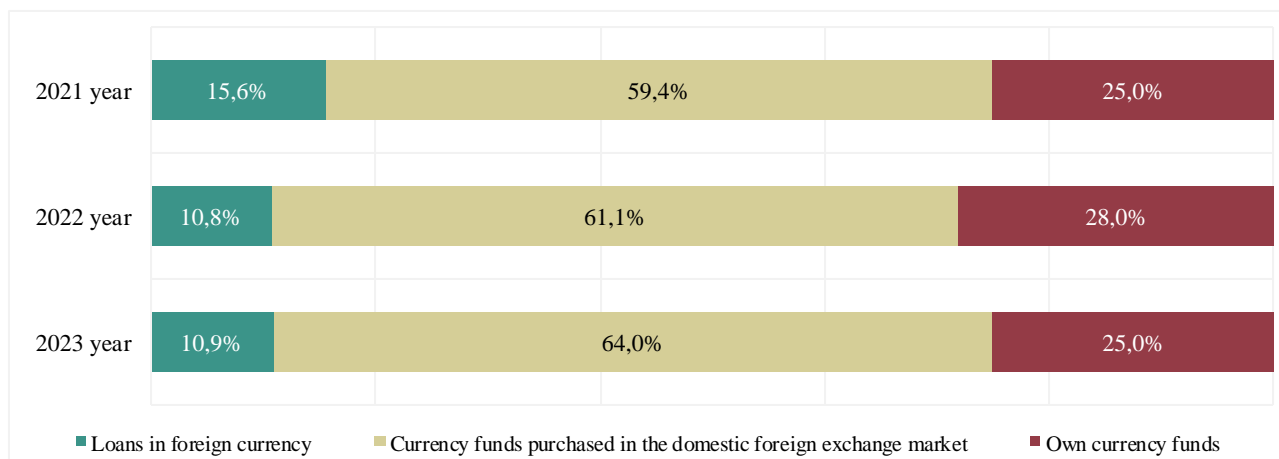
Source: Central Bank data

In 2023, import payments by business entities amounted to **\$36,5 billion**, (excluding re-exports). This represented a **12%** increase compared to 2022. Notably, **64%** of these payments were covered by foreign currency purchased on the domestic foreign exchange market.

In the reporting year, the dynamics of the national currency exchange rate were influenced by factors such as supply and demand on the domestic foreign exchange market, as well as external economic conditions.

Figure 3.1.4.3

Sources of import financing



Source: Central Bank data

The significant strengthening of the real effective exchange rate of the soum in August 2023 was influenced by several factors, including continuance of tight monetary conditions globally, devaluation of national currencies of major trading partners, and balanced inflation indicators. This led to a correction in the soum exchange rate through various currency channels in the domestic foreign exchange market.

Figure 3.1.4.4

Dynamics of the US dollar against the soum, UZS/USD

Source: Central Bank data

The correction of the national currency exchange rate in the domestic foreign exchange market, driven by fundamental factors, helped restore the real effective exchange rate to its long-term trend. This contributed to balancing the supply and demand for foreign currency across all segments of the foreign exchange market. Through this adjustment, a flexible exchange rate mechanism mitigated the potential negative impact of external shocks on the domestic economy.

Throughout 2023, the national currency exchange rate against the US dollar was in the range of **11 263-12 390 UZS** and depreciated by **9,8%**, while the real effective exchange rate remained stable, strengthening by **0,8%** compared to the beginning of the year.

3.2. Foreign exchange policy and analysis of foreign exchange operations

In 2023, the negative foreign trade balance expanded due to stagnant export revenues amid falling global commodity prices, as well as an increased demand for imported goods, sustained by a high level of domestic demand.

Despite a decrease in the flow of net foreign investment into Uzbekistan, resulting from the continuation of tight monetary policy in several countries and the migration of capital from developing countries to developed economies, the attraction of external borrowing has increased. This increase is part of financing of government programs, as well as investment projects of the government and enterprises in the corporate (private) sector.

This situation required a cautious approach to the conduct of foreign exchange policy and relatively enhanced monitoring of foreign exchange operations.

To fully meet the obligations outlined in the articles of the IMF agreements, all necessary measures have been implemented to ensure unrestricted settlement of current international transactions and unimpeded acquisition of foreign currency for these operations.

Consequently, a conservative approach to operations involving capital movements was maintained to safeguard the stability of the domestic foreign exchange market against various risks.

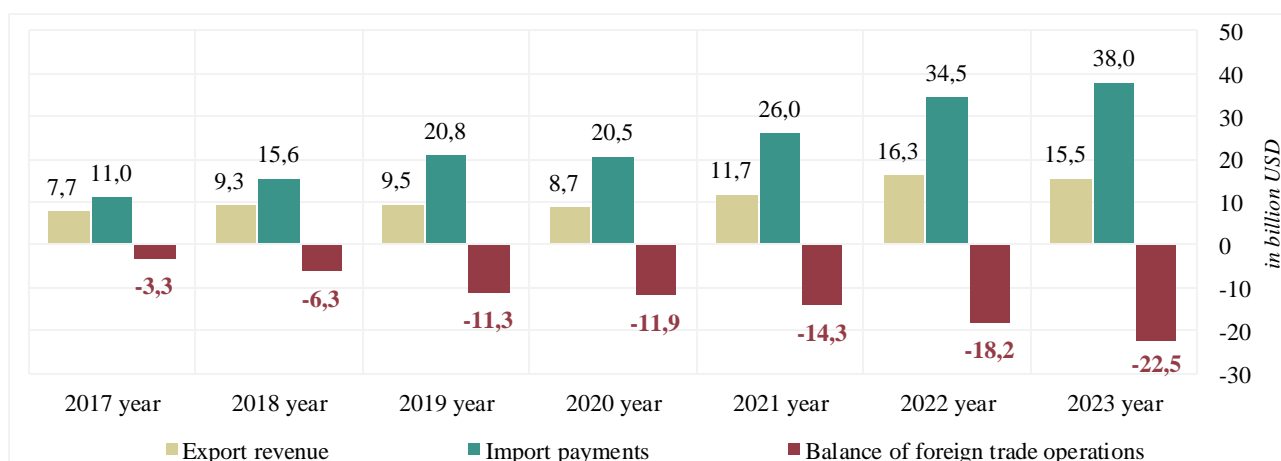
As part of efforts to enhance legislative frameworks in foreign exchange regulation and align them with economic processes, adjustments were made to regulations. These changes have provided residents and non-residents with additional opportunities for purchasing foreign currency on the domestic foreign exchange market and its utilization.

3.2.1. Analysis of the movement of funds in foreign trade operations

In 2023, total **export revenue** of business entities (*excluding special exports*) decreased by **5%** compared to 2022, amounted to **\$15,5 billion**. Concurrently, payments for the import of goods and services increased by **10%** compared to 2022, reached **\$38 billion**.

Figure 3.2.1.1

Dynamics of export revenues and import payments



Source: Central Bank data

The widening of the negative balance in currency movements from foreign trade operations was mirrored by a decrease in the coverage level of import payments by export earnings (*“Terms of trade”*), reducing this indicator from 47% in 2022 to **41%**.

The remainder of import payments was primarily covered by funds acquired on the domestic foreign exchange market, supplemented in part by foreign currency loans and the own funds of enterprises.

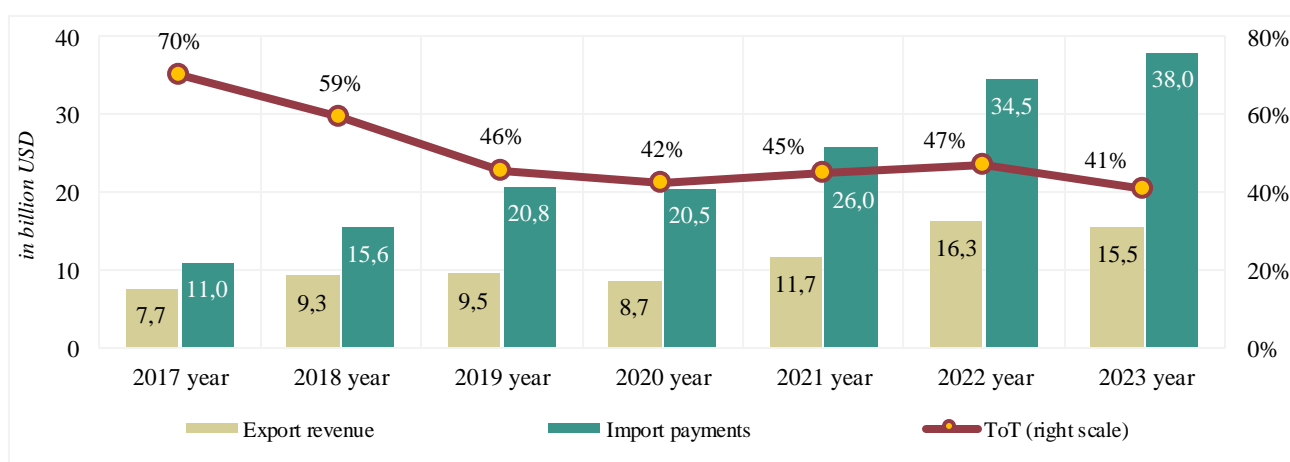
Simultaneously, **\$6,3 billion** or 41% of **export revenue** was originated from industrial enterprises within the economy, while **\$9,2 billion** or 59%, was generated by enterprises at the regional level.

When analyzing export revenues by trading partner countries, 65% was attributed to five foreign countries, notably **Russia accounting for 27%, China – 13%, Kazakhstan – 10%, United Arab Emirates – 8%, and Türkiye – 7%**.

In the reporting year, **78%** of all export earnings were in US dollars, **14%** in Russian rubles, **5%** in euros, and the remaining **3%** from other currencies.

Figure 3.2.1.2

**Degree of reimbursement of import payments by export receipts
(Terms of trade (ToT)) dynamics**

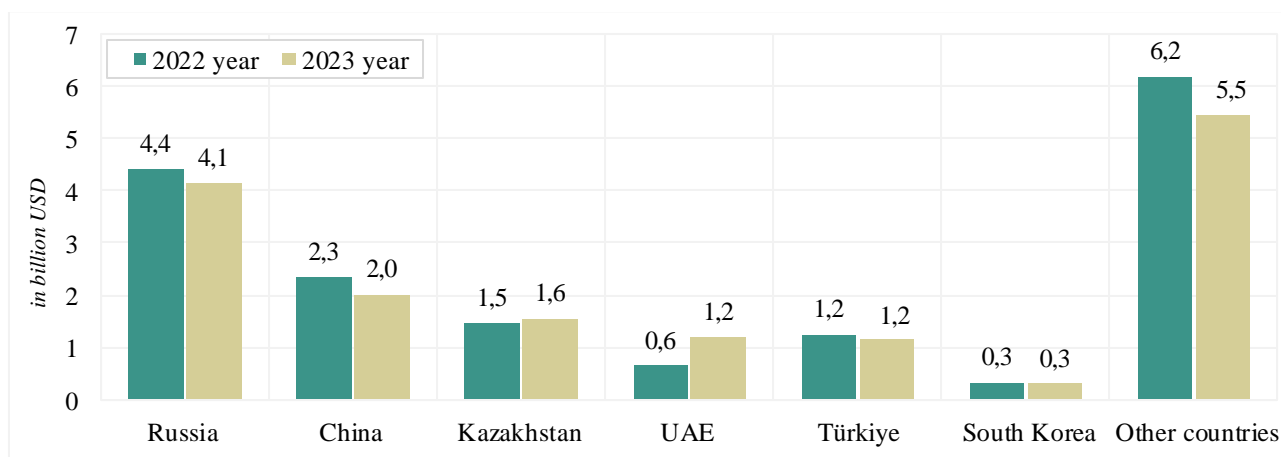


Source: Central Bank data

In 2023, **61%** of the total volume of **import payments**, amounting to **\$23,3 billion**, was financed through funds acquired on the domestic foreign exchange market, marking an increase of 3 p.p. compared to 2022.

Figure 3.2.1.3

Dynamics of export revenues by partner countries

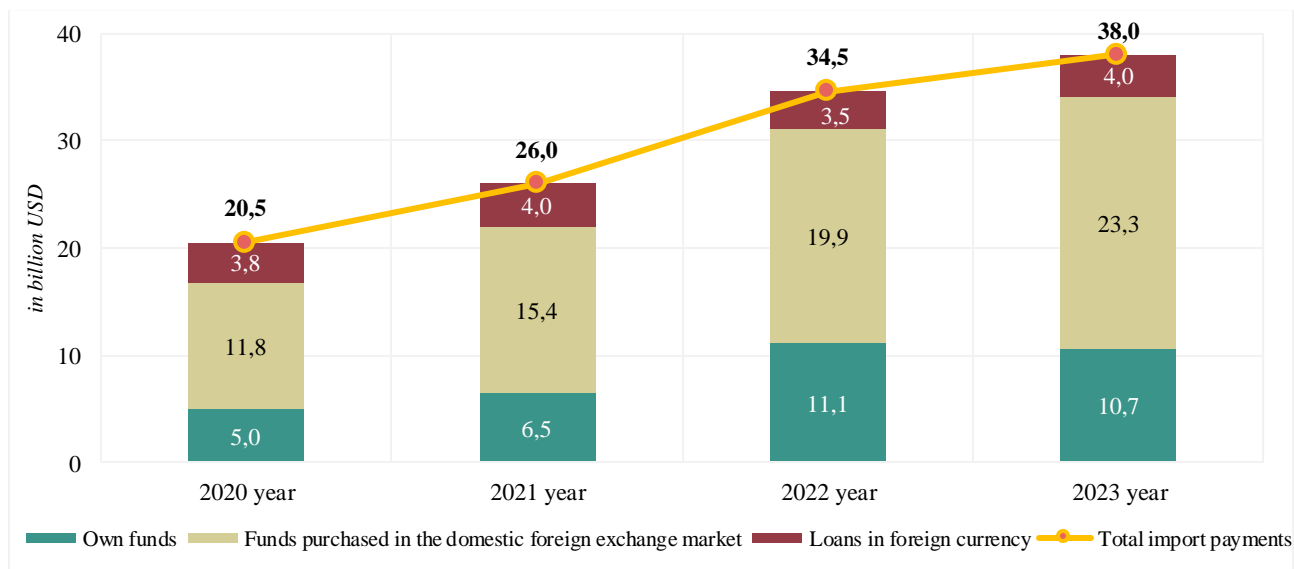


Source: Central Bank data

At the same time, import payments financed through loans in foreign currency increased by **14%**, totaling **\$4 billion**, which represented a **\$494 million** rise compared to 2022.

Figure 3.2.1.4

Dynamics of import payments and sources of funds for enterprises in 2020-2023.

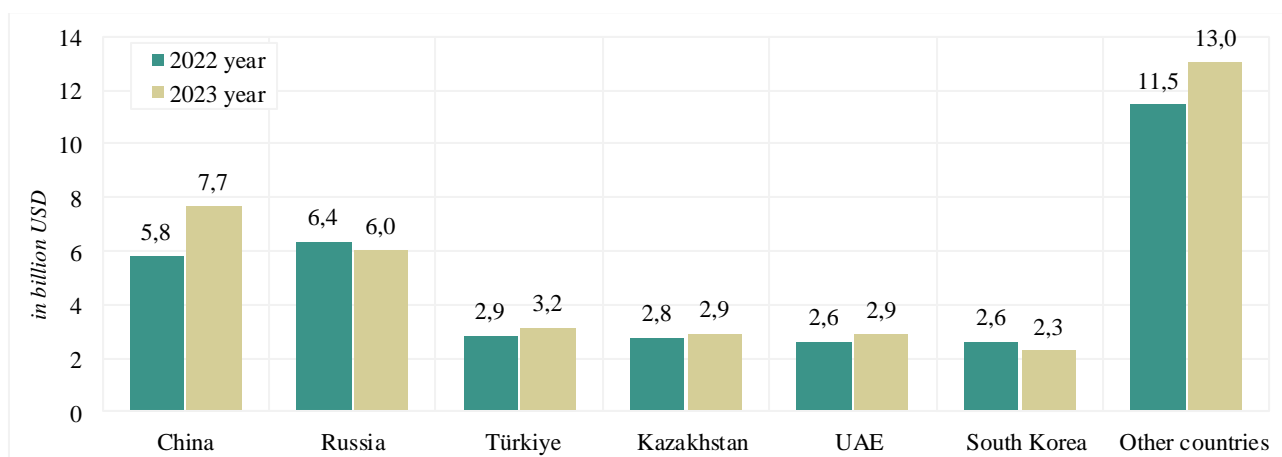


Source: Central Bank data

60% of the total amount of import payments was directed to **5** partner countries, of which, **China** accounted for **20%**, **Russia** **16%**, and **Türkiye**, **Kazakhstan**, and the **United Arab Emirates** each received **8%** respectively.

Figure 3.2.1.5

Dynamics of import payments by partner countries



Source: Central Bank data

In 2023, **74%** (-5%) of import payments under foreign trade contracts were conducted in US dollars, **13%** (+4%) in Russian rubles, **11%** (unchanged) in euros, and the remaining **2%** (+1%) in other currencies.

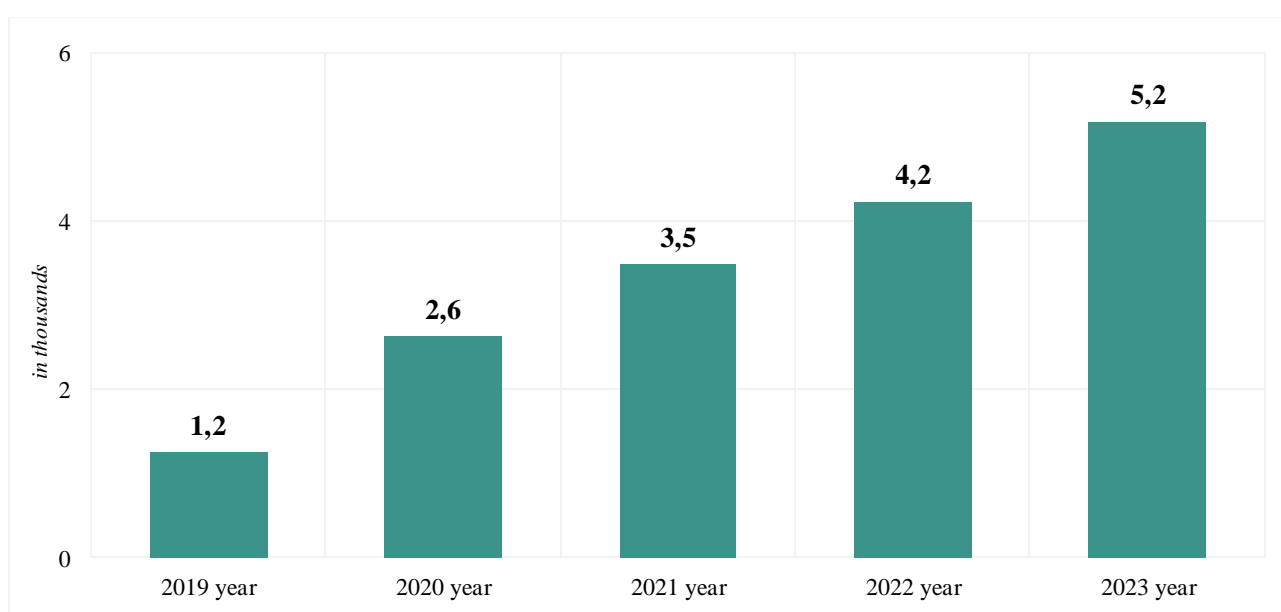
3.2.2. Foreign currency transactions with individuals

In 2023, efforts were continued to meet the demand of individuals for foreign currency exchange operations by enhancing infrastructure and ensuring stable operation, thereby creating additional opportunities for the population and tourists.

Specifically, to enhance the infrastructure of exchange operations and increase their accessibility in populated areas, the total number of **exchange offices** was expanded by 24%, totaling more than 5,2 thousand facilities. *(including 2,6 thousand automated currency exchange offices operating day and night.)*

Figure 3.2.2.1

Growth dynamics of the total number of currency exchange offices in 2019-2023.



Source: Central Bank data

In the reporting year, the turnover of foreign exchange transactions with individuals *(buying and selling of foreign currency)* increased by **3%** compared to 2022, totaling **\$21,5 billion**.

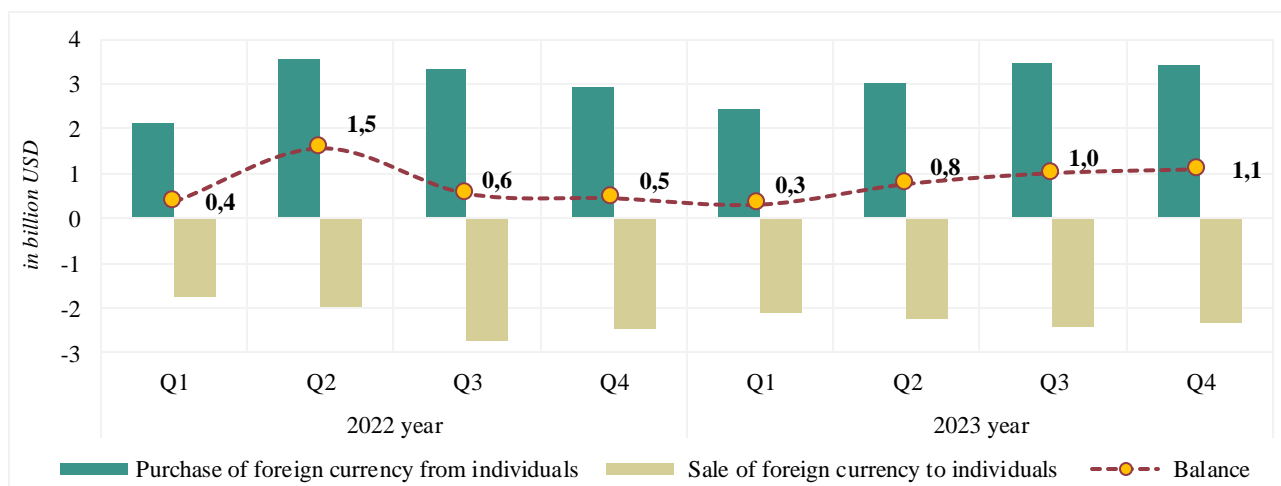
In 2023, the share of the US dollar in total foreign exchange operations remained unchanged at **99%**.

In 2023, commercial banks purchased foreign currency from individuals amounting to **\$12,3 billion**, which represents a 4% increase compared to 2022. They sold foreign currency to individuals amounting to **\$9,1 billion**, marking a 2% increase compared to sales in 2022.

It should be noted that the positive balance of foreign exchange operations increased from **\$3 billion** to **\$3,2 billion** in 2023 compared to 2022, thus contributing as an additional **supply factor in the domestic foreign exchange market**.

Figure 3.2.2.2

Volume of currency exchange operations of individuals in 2022-2023



Source: Central Bank data

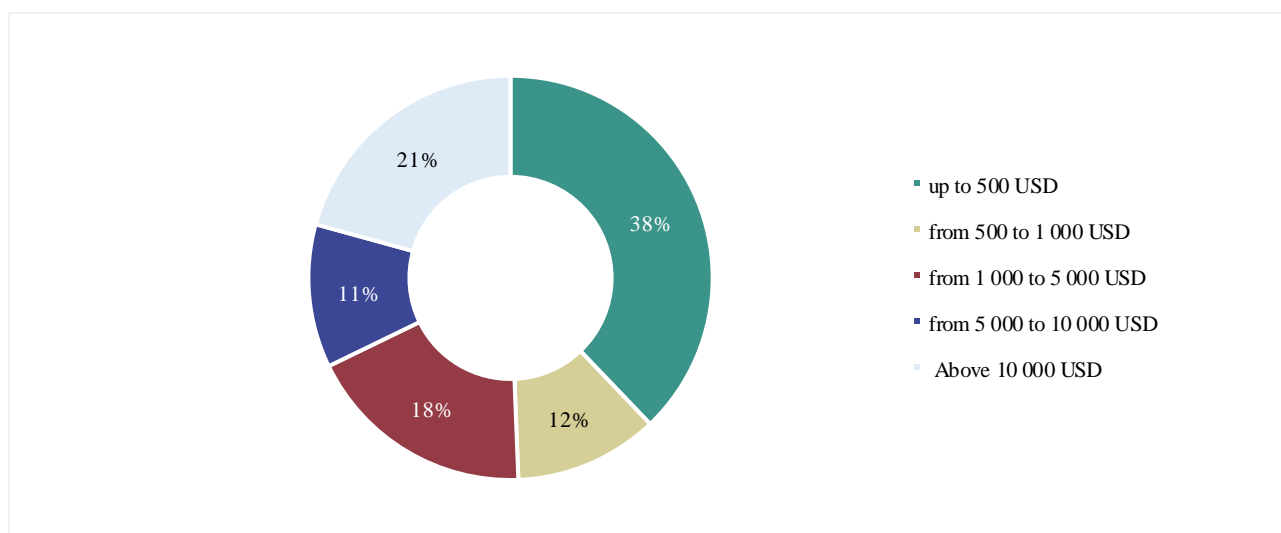
The share of transactions involving foreign currency **purchased** from individuals in amounts up to \$1 000 decreased from **56%** to **49%** compared to 2022, while the share of transactions exceeding \$1 000 increased from **44%** to **51%**.

Also, transactions involving the **sale of foreign currency** by commercial banks to individuals in amounts exceeding \$1 000 accounted for 75% of the total volume of transactions (*consistent with the previous year's level*).

In 2023, cash foreign currency purchased from individuals through **automated currency exchange ATMs operating “24/7”** in populated areas, tourist destinations, airports, train stations, and shopping malls amounted to **\$169 million**. Additionally, individuals purchased **\$117 million** in transactions under \$100.

Figure 3.2.2.3

Quantitative composition of foreign currencies purchased from individuals in 2023



Source: Central Bank data

In the reporting year, commercial banks remotely (*online*) sold foreign currency to individuals in the amount of \$2 billion through mobile applications, and purchased funds in the amount of \$900 thousand.

In 2023, the turnover of international **cross-border remittances** (*received and sent abroad*) reverted to its historical trend, decreasing by more than 30% compared to 2022, amounting to \$13,8 billion.

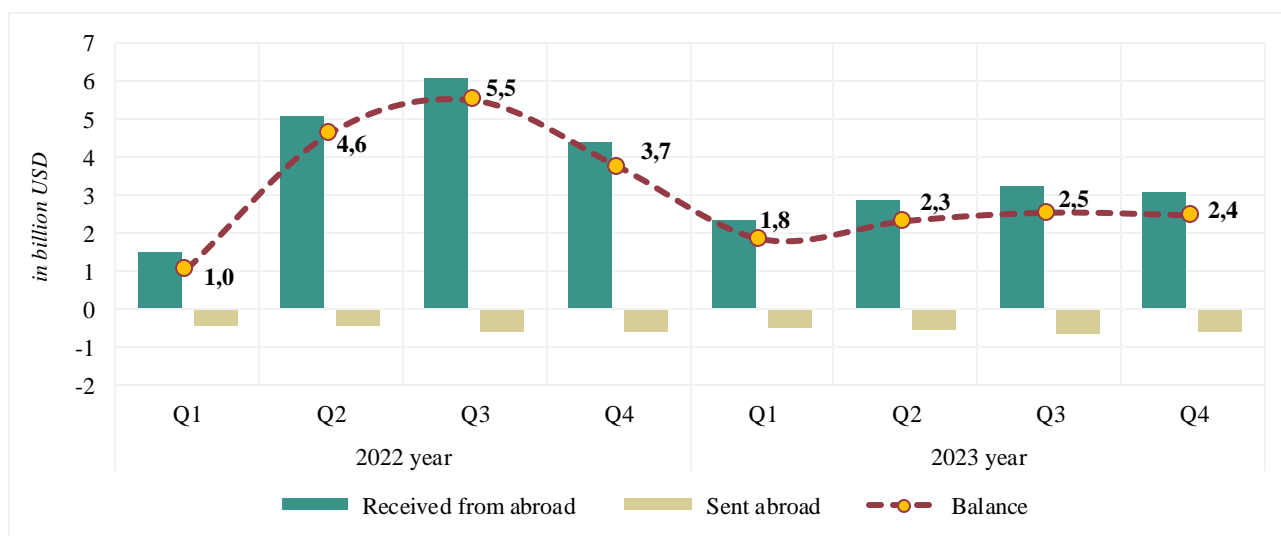
Through international **cross-border money transfers**, the country received foreign currency totaling over \$11,4 billion in 2023, which is 1,5 times less than in 2022.

34% of the total volume of international money transfers received in the reporting year were direct cross-border transfers (*via P2P*)¹⁴ to individuals' cards.

It is noteworthy that in 2023, there was a decline in the volume of cross-border remittances from Russia. Conversely, countries such as Türkiye (1,3 times), Korea (1,2 times), Lithuania (2,3 times), and Poland (1,3 times) experienced an increase in remittance inflows, totaling more than \$155 million.

Figure 3.2.2.4

Dynamics of international cross-border money transfers



Source: Central Bank data

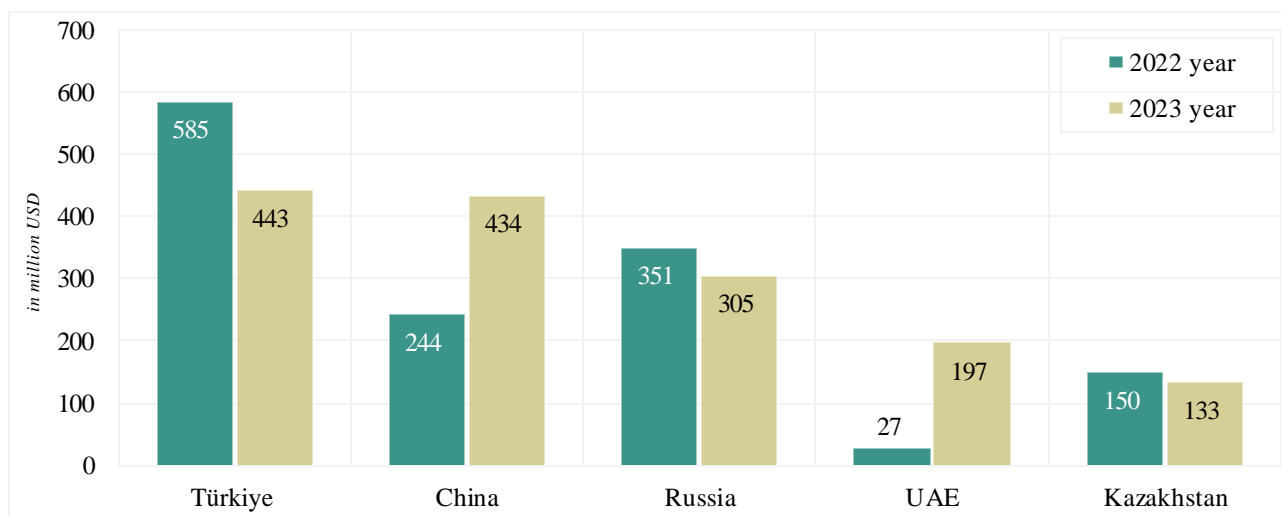
These structural changes are explained by the reduced economic activity in the main labor hosting countries and the redirection of labor migration flows from traditional countries to alternative destinations. This shift followed the implementation of organized migrant employment programs under intergovernmental agreements within the countries.

¹⁴ P2P transfers are international cross-border online transfers of money from abroad to cards of individuals in national and foreign currency.

In the reporting year, the volume of remittances sent by individuals to foreign countries amounted to **\$2,3 billion**, marking a **12%** increase compared to 2022. The significant growth of funds sent through direct bank transfers, rising by almost 70%, was attributed to the increased volume of non-commercial payments.

Figure 3.2.2.5

**Cross-border money transfers sent abroad
in 2022-2023, by countries**



Source: Central Bank data

At the same time, the majority of funds sent via cross-border transfers, accounting for **65%** of the total volume, originated from **5** countries: Türkiye with **\$442,6 million**, China with **\$434,1 million**, Russia with **\$305,5 million**, the United States with **\$197 million**, and the United Arab Emirates with **\$133,3 million**.

3.3. Management of international reserves of the Republic of Uzbekistan

In 2023, the Central Bank prioritized enhancing international reserve management practices, focusing on the principles of safety, liquidity, and profitability.

In particular, the Central Bank continued its cooperation with World Bank under “Advisory on international reserves and management program”.

To regulate and enhance the efficiency of international reserves management within the framework of this program, the Central Bank established Investment committee. This committee sets specific goals and directions for reserve management and develops investment recommendations for asset diversification.

Investment committee developed a roadmap for the implementation of leading foreign information systems and software at the Central Bank, which are used in managing international reserves. Additionally, the committee created strategies for the diversification of reserves through investments in securities.

As part of World Bank program, employees of the Central Bank obtained qualification certificates by successfully completing specialized seminars in areas such as securities portfolio management, international investment accounting standards, and the assessment and management of credit and market risks.

Central Bank staff also are continuing their training to obtain certificates in international programs such as Chartered Financial Analyst (CFA) and the Association of Chartered Certified Accountants (ACCA), additionally, an internship program was launched in the Treasury of World Bank in the direction of “Management of public financial assets”.

Box 7

In accordance with the Law “On the Central Bank of the Republic of Uzbekistan” one of the Central Bank’s functions is the management, accounting, and storage of international reserves. In line with the objectives of storing and managing these reserves, priority is given to ensuring an acceptable level of security and liquidity.

The liquidity of international reserves ensures the timely and continuous settlement of international transactions, enabling the Central Bank to take prompt and effective measures in the implementation of monetary policy.

For this reason, to ensure macroeconomic stability, the primary focus is paid to maintaining international reserves at a sufficient level to support the Central Bank’s monetary policy and to ensure the settlement of international transactions.

International reserves consist of assets held by the Central Bank and the Government of the Republic of Uzbekistan and include monetary gold, foreign currencies, Special drawing rights (SDR), IMF reserve positions, as well as securities issued or guaranteed by foreign governments and international financial institutions.

Assets included in international reserves must meet several criteria: they should be high liquid, claims on nonresidents as foreign assets, denominated in foreign currencies which freely usable in settlements of international transactions, and readily available and controlled by monetary authorities.

3.3.1. Analysis of the dynamics and structure of international reserves of the Republic of Uzbekistan

As of January 1, 2024, gross international reserves totaled **\$34,6** billion, with **\$24,6** billion in monetary gold reserves and **\$9,9** billion in foreign currency assets.

In the reporting year, the value of gold reserves increased by \$3,1 billion due to a rise in the price of gold, while the physical volume of gold in reserves remained nearly unchanged.

High inflation pressures and geopolitical uncertainty in the global economy had led to increased demand for gold as a safe asset and an inflation hedge, consequently maintaining its price at elevated levels.

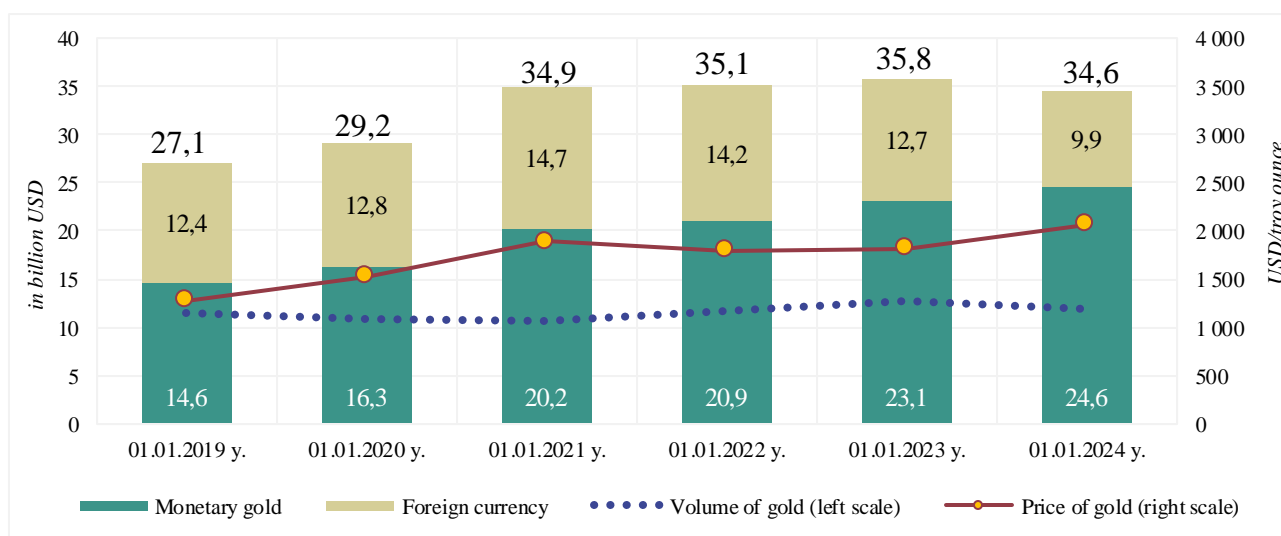
Thus, in 2023, the price of gold rose by 13,8%, reaching \$2 062,4 per troy ounce.

The continued upward trend of gold price is an important factor in significant increase in volume of gold within international reserves.

In 2023, the share of **monetary gold** in international reserves increased from 66% to 71%, while the share of **foreign currency** decreased from 34% to 29%.

Figure 3.3.1.1

Dynamics and changes in the structure of international reserves of the Republic of Uzbekistan



Source: Central Bank data

Foreign currency assets in international reserves decreased because:

- during 2023, there was an increase in the cost of attracting and servicing external debt and a decrease in investment opportunities due to rise in key interest rates by Central Banks in developed countries, including the US Federal Reserve.
- in the reporting year international remittances returned to their historical trend followed unusual growth rates observed in 2022.

The negative difference between supply and demand in the domestic foreign exchange market was financed by foreign currency from international reserves, serving as an additional source for international payments within the framework of the principle of “neutrality”.

During the reporting period, the Central Bank purchased 105,6 tons of monetary gold from local manufacturing enterprises and exported 110 tons of gold. The foreign exchange proceeds from the sale of gold were directed to the domestic foreign exchange market.

At the end of the reporting period, 82% of foreign currency assets were in USD, 14% in Chinese yuan and 4% in other currencies.

The increase in the share of the Chinese yuan in foreign exchange assets is attributed to its designation as an international reserve currency and the rise in China’s foreign trade turnover with Uzbekistan in recent years (18% in 2022, 22% in 2023).

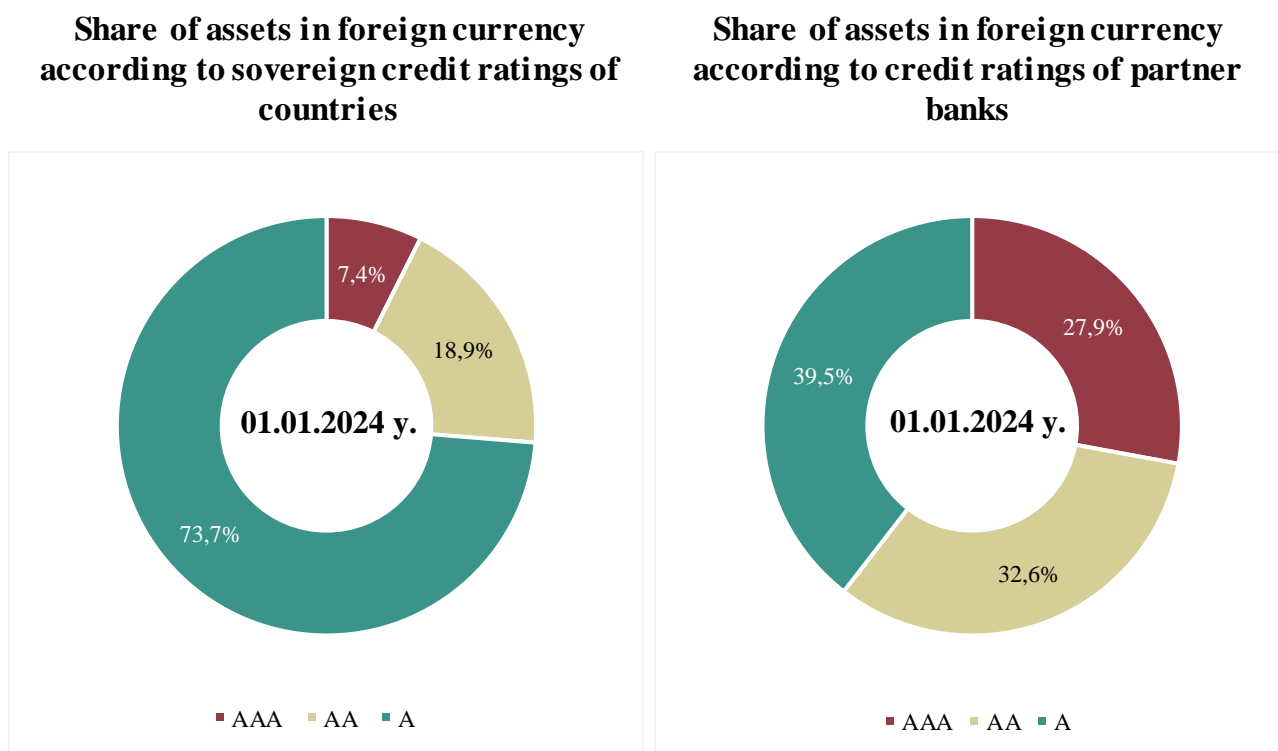
It should also be noted that the international status and financial position of partner banks play a crucial role in the management of international reserves.

In 2023, foreign currency assets were placed in time deposits in foreign banks that possess international investment ratings and operate in countries with high sovereign credit ratings.

In order to mitigate the risk of concentration of foreign currency assets, the Central Bank continued to expand its cooperation. By the end of 2023, the number of partner banks increased by 7 and reached 45 across 17 countries.

In terms of Tier 1 capital, 32 partner banks ranked among the 100 largest banks in the world, while the remaining were among the 200 largest banks globally.

Figure 3.3.1.2



Source: Central Bank data

The Central Bank regularly monitors potential risks associated with the financial stability of partner banks, which allows it to mitigate risks related to foreign currency assets and to implement timely measures.

In particular, due to potential risks associated with the activities of certain US banks and the Swiss bank “Credit Suisse”, the volume of transactions with US and Swiss banks was suspended in the first quarter of 2023 until the situation stabilized.

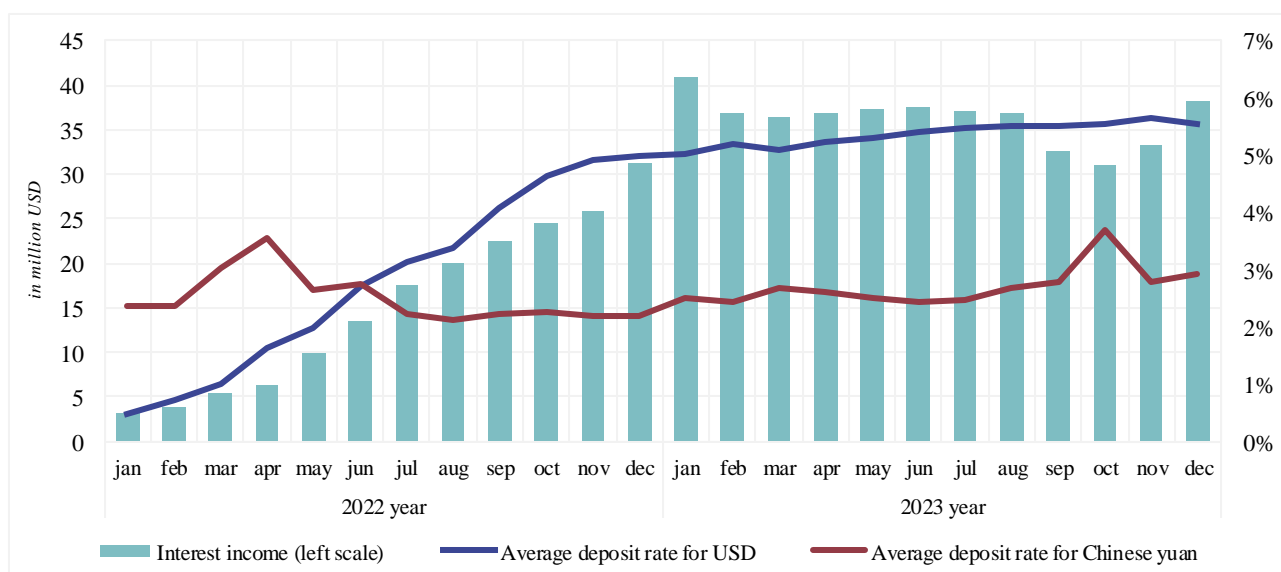
In addition, to mitigate concentration risk, diversification of foreign currency assets is ensured across countries and partner banks, taking into account prevailing market conditions.

The increase in interest rates on the international money market in 2023 led to higher interest income from placing foreign currency assets in time deposits in foreign partner banks.

In particular, income from placing foreign currency assets on deposits increased 2,4 times compared to 2022, reaching \$436 million. The average yield on deposits in USD increased from 4,5% in 2022 to 5,6%, and in Chinese yuan, it increased from 2,5% in 2022 to 2,8%.

Figure 3.3.1.3

Dynamics of interest income and average interest rates by foreign currency assets



Source: Central Bank data

3.3.2. International reserve adequacy indicators and analysis

Maintaining international reserves at sufficient levels is crucial for every developing country. Adequate international reserves reduce the likelihood of balance of payments crises, ensure economic and financial stability during periods of exchange rate pressure, and act as a buffer during other economic crises.

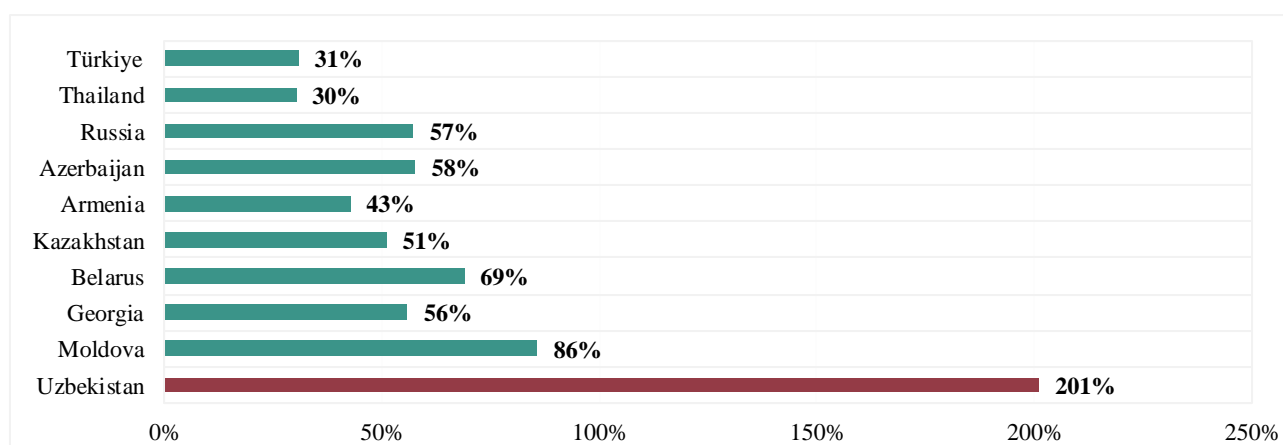
Formation of these indicators such as **coverage of short-term debt with reserves** (minimum requirement – 100%) and **coverage of imports with reserves** (cover at least three months of imports), **the ratio of reserves to broad money**

supply (20%) and **ARA EM Adequacy of reserves (100-150%)** above the minimum requirements set by international practice are the results of liberalization of foreign exchange policy and prudent policies in the management of international reserves¹⁵.

In particular, as of January 1, 2024, the ratio of international reserves to broad money supply stood at 201%, which is ten times higher than the minimum requirement of 20%.

Figure 3.3.2.1

Ratio of international reserves to broad money

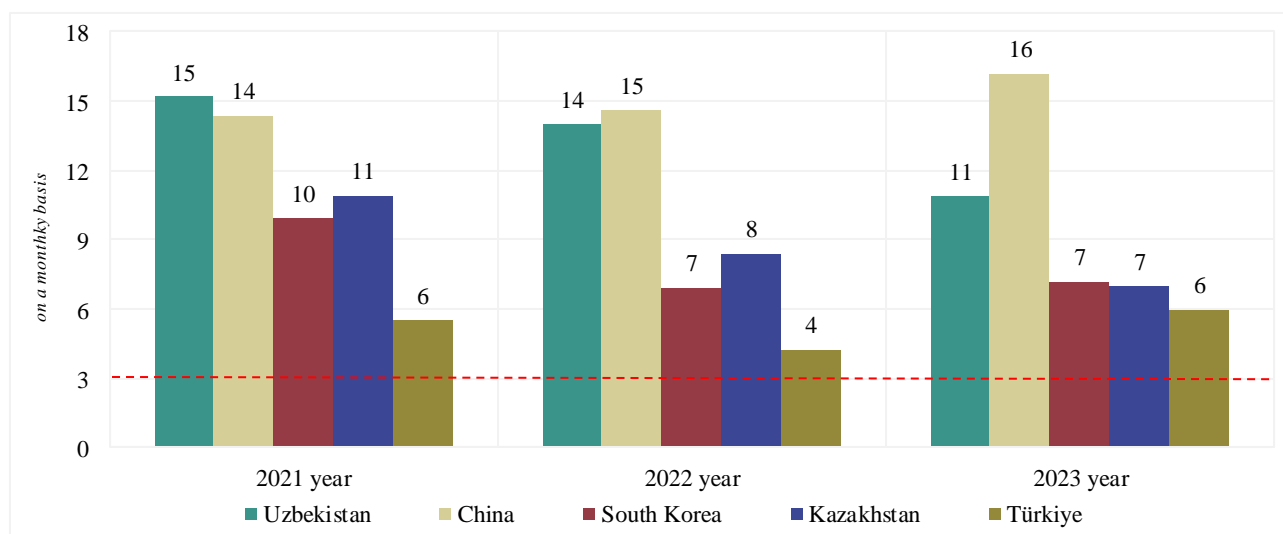


Source: The IMF and Central Bank data

By the end of 2023, the volume of Uzbekistan’s international reserves covers 11 months of imports, which is 4 times the minimum requirement.

Figure 3.3.2.2

Coverage of import with international reserves



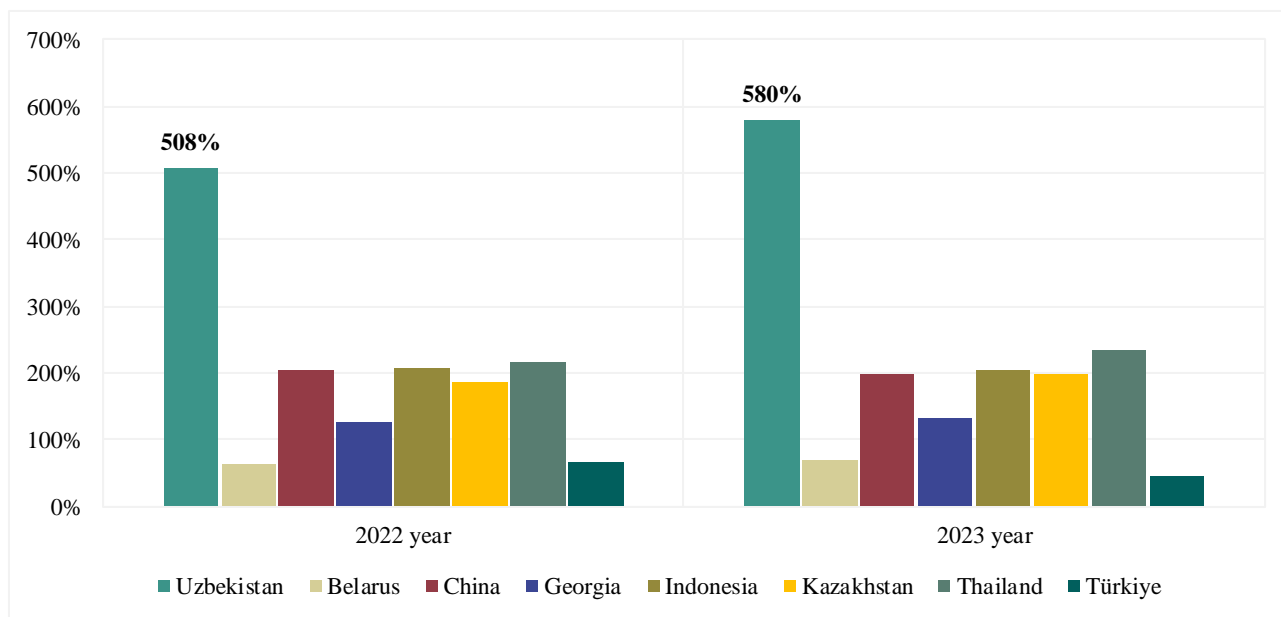
Source: The IMF and Central Bank data

¹⁵ ARA EM indicator (Assessing Reserves Adequacy for Emerging Markets) - this indicator is calculated in accordance with the IMF methodology based on indicators such as country’s foreign exchange policy, volume of export-import, broad money and external debt.

Existing international reserves fully cover Uzbekistan’s short-term external debt, which is due in 2024, and exceeded the required minimum by **5,8 times**.

Figure 3.3.2.3

Coverage of short-term external debt with international reserves

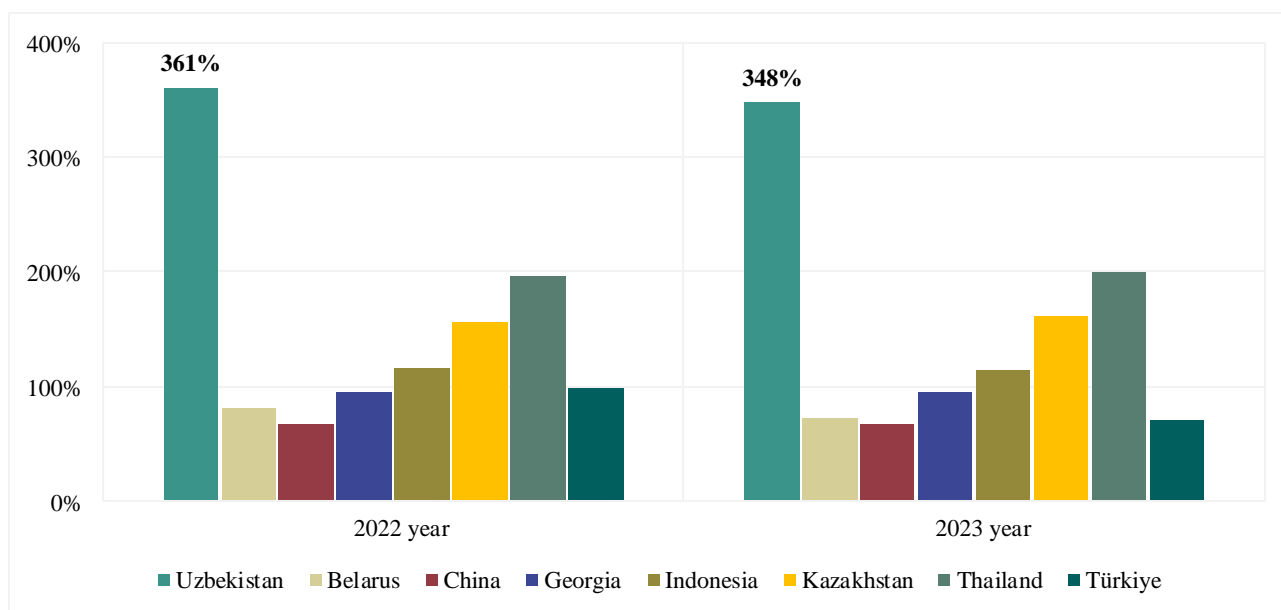


Source: The IMF and Central Bank data

International reserves are **3,5 times** higher than the minimum requirement of ARA EM indicator of the IMF.

Figure 3.3.2.4

Change in ARA EM indicator

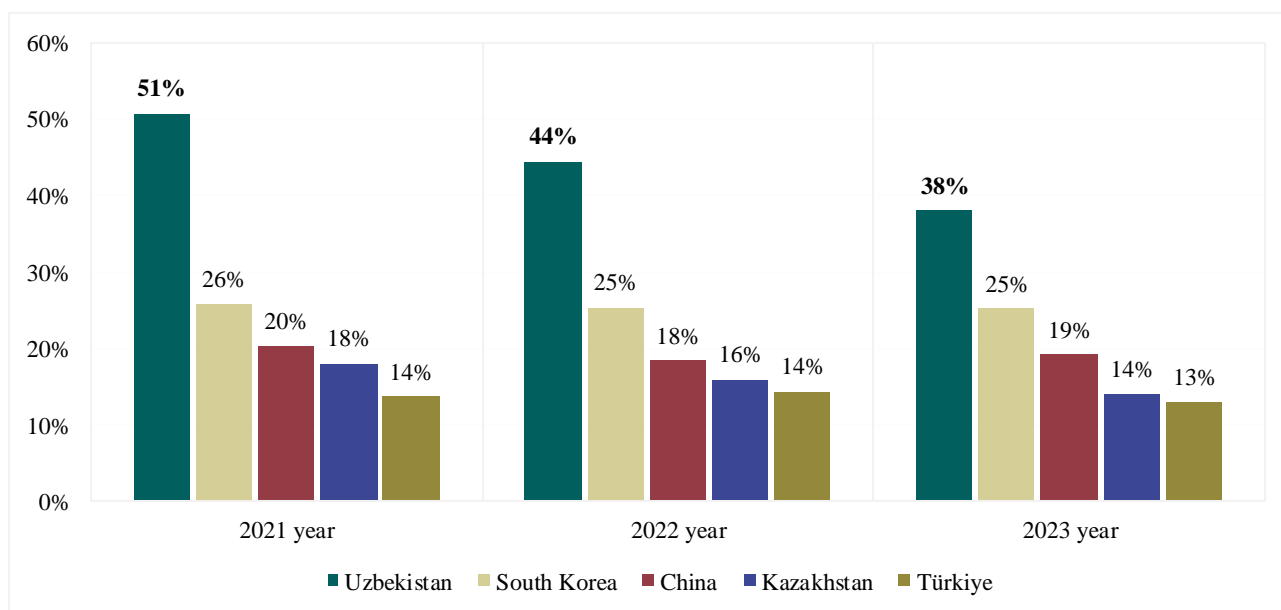


Source: The IMF and Central Bank data

As of January 1, 2024, the ratio of international reserves to GDP was high relative to trading partner countries, amounting to **38%**.

Figure 3.3.2.5

Change in international reserves to GDP



Source: IMF and Central Bank data

Expectations in international financial markets

In 2024, expected dynamics of international financial markets are analyzed by three possible scenarios for the global economic development: **baseline, alternative-risky and alternative optimistic scenarios.**

In the **baseline scenario** for 2024, it is anticipated that leading Central Banks (*USA, Europe, UK*) will ease monetary policy, as global economic growth rates are expected to be maintained at 2023 levels with a decrease in inflation. Geopolitical uncertainty in the Middle East is expected to persist in the medium term.

According to published Fed forecasts, by the end of 2024, the growth rate of the US economy is expected to slow to 1,4%, unemployment rate is projected to increase to 4,1% (*3,7% in December 2023*), and inflation is forecasted to decrease to 2,4% (*2,9% in December 2023*), aligning closely with the Fed’s inflation target averaging 2%.

The Fed announced the possibility of reducing the interest rate during 2024 to 4,75% (*5,5% at the end of 2023*) based on the decline in inflation.

The likelihood of lower interest rates decreases the yield of reserve currencies and cost of lending to the economy which in turn can potentially lead to increase flow of capital into the stock market and the real sector of the economy.

At the same time, experts consider conflicts in the Middle East region as the primary factor supporting the demand for precious metals as safe-haven financial instruments.

The **alternative-risky** scenario predicts a deterioration of the geopolitical situation and ongoing high inflationary pressure.

Escalating conflicts in the Middle East, particularly threats to the free flow of global trade and energy through regional shipping lanes, could lead to a slower-than-expected decline in global inflation.

As a result, yields on reserve currencies may remain at high levels in the short term, potentially leading to an outflow of capital from stock markets to safe haven assets.

In this regard, the demand is expected to increase for precious metals as a safe-haven asset and hedge against inflation.

An **alternative optimistic** scenario forecasts a decrease in prices for consumer goods and energy resources on the world market, due to the stabilization of the geopolitical situation globally.

In this situation, the resolution of geopolitical conflicts in the Middle East is expected to accelerate the rate of decline in global inflation. This, in turn, could facilitate faster easing of monetary policy by leading Central Banks and potentially lead to higher-than-expected economic growth.

As a result, there is an increased likelihood of a significant reduction in the yield of reserve currencies and a decrease in demand for safe-haven assets in global financial markets. Consequently, prices in the international precious metals market may decline, prompting investors to increasingly direct capital towards more profitable stock markets.

3.4. Communication policy of the Central Bank

In the year 2023, significant emphasis was paid on enhancing the role and efficiency of the communication policy of the Central Bank. This strategic focus aimed to monetary policy and ensuring the stability of the banking and payment systems.

To achieve this objective, “Communication strategy for 2023-2025” was formulated based on the best practices of foreign Central Banks, in collaboration with the IMF.

Within this strategy, priority tasks were delineated to effectively communicate the goals and directions of the Central Bank’s activities to the public. These tasks encompass:

- enhancing public awareness via mass media and modern communication channels regarding prices including reinforcing financial condition of the banking system, payment organizations and the regulator’s activities in other directions.

– facilitating informed decision-making and guiding future behavior among individuals and business entities by extensively disseminating information regarding ongoing economic reforms, alterations, and initiatives undertaken by the Central Bank;

– cultivating an environment conducive to the open exchange of information and opinions with the public, fostering mutual trust and transparency.

Monetary policy communication. In 2023, the Central Bank prioritized the enhancement of its communication tools to effectively convey the content and essence of monetary policy to the general public, with the overarching goal of progressively reaching medium-term inflation target.

Throughout the reporting year, publications of monetary policy guidelines, monetary policy reviews and press releases regarding decisions of policy rate served as the primary instruments for monetary policy communication.

Special attention was devoted to writing the aforementioned publications using clear and comprehensible language, taking into account all segments of individuals. Detailed explanations were given for important information and messages.

The Central Bank actively influences the expectations of individuals and entrepreneurs through the transparent dissemination of monetary policy via various media channels. This includes reviews, forecasts, and reports about economic conditions within specific timeframes.

In this context, monthly surveys are conducted among individuals and entrepreneurs about perceived inflation and expectations and these findings are routinely disseminated to the public in the form of visually accessible infographics.

Simultaneously, analytical review by experts and adherence to the forward-looking principle were applied to every monetary sector-related publication process under the auspices of the EBRD technical support mission.

Throughout 2023, press conferences were convened after the primary board meetings concerning the policy rate. These sessions witnessed a progressive rise in media attendance and a broadening spectrum of journalists and bloggers providing online coverage of the events.

Notably, there has been a notable expansion in the number of journalists specializing in coverage of the banking and financial sector among media representatives. This development serves to mitigate the risk of misconceptions regarding the actions of the Central Bank and erroneous interpretations of information.

To actively involve the academic community in the activities of the Central Bank and finance and an exchange of ideas on contemporary issues, seminar-trainings titled “Monetary policy and inflation targeting” were conducted. Faculty members and students from approximately 10 leading universities specialized in economics attended these seminar-trainings.

Transparency and openness in the activity of the Central Bank. Timely information regarding monetary policy, banking, and payment systems is disseminated through various communication channels (official website and social media platforms) Special emphasis is paid on:

- dissemination of information regarding the regulator’s activities through publications targeting a broad audience;
- ensuring the completeness and comprehensibility of information regarding banking system;
- timely provision of information and transparent presentation of future plans.

In 2023, in order to bolster public confidence in the effectiveness of commercial banks, non-bank credit institutions, and payment organizations, information regarding topics discussed during meetings of the Banking supervision committee along with the decisions were disseminated to the public.

The role of communication especially, face-to-face meetings are important in gaining trust of individuals and entrepreneurs. In 2023, in this regard, higher officials of the Central Bank organized more than 100 meetings and open discussions so as to provide information to consumers of banking services about current macroeconomic situation in the republic, monetary policy and bank-client relationship.

The accumulated experience in communication and results of detailed studies of current situation have shown that the current and planned measures of the Central Bank are an effective mechanism for pre-emptive information.

Vivid examples of this are the media dialogues held by the Central Bank on the topics “New financial services and technologies introduced within the framework of a special legal regime – the regulatory sandbox”, “The importance of bank resolution systems and deposit guarantees in ensuring the stability of the banking system.”

In 2023, some analytical reviews were summarized and 55 reviews, 214 messages, 10 press releases, 3 reports from members of the Board of the Central Bank and more than 300 statistical data on the activities of credit institutions and payment systems were posted on the website.

In recent years, global trends in communications policy and requests from observers have focused on presenting data and information in a more visual manner. In particular, compared to 2022, **1,5 times** more or more than **500** videos and infographics were published in the mass media and social channels.

The practice of conducting quarterly training seminars for media workers, journalists and bloggers covering banking and financial topics was continued, at which the financial knowledge of more than 50 industry representatives has been improved.

Moreover, more than 40 television programs, seminars, conferences and forums were organized, and relevant information was brought to the attention of observers. Meetings of the higher officials and staff of the Central Bank with representatives of international financial organizations are regularly posted on the website and social networks.

Holding aperiodic interactive training seminar was launched for employees of the Central Bank with the participation of well-known professional journalists and bloggers on the topic “Oratory: methods of public speaking and free expression of opinion.” These events serve to develop employee interviewing skills, the ability to behave freely in front of the camera, and to express their thoughts briefly and clearly.

An open information policy of the Central Bank is one of the conditions necessary to achieve its goals. This enables participants in financial relations to understand in detail the measures and decisions they are taking, and also allows consumers of banking services to manage their expectations regarding changes in key macroeconomic indicators, contributes to the influence of monetary policy on economic processes, in particular, helps to more effectively form market expectations.

Increasing the volume and timeliness of information in the Central Bank, including regular familiarization with information in the banking system, increases public interest.

This, in turn, requires enriching the content of the presented materials on the activities of the banking system, identifying new approaches and directions. In this regard, it is planned to provide brief analytical materials aimed at reforms being carried out in the banking system, analysis of key indicators, in particular, transformation processes in credit institutions, providing services in an innovative form, that is, popularization of the banking ecosystem.

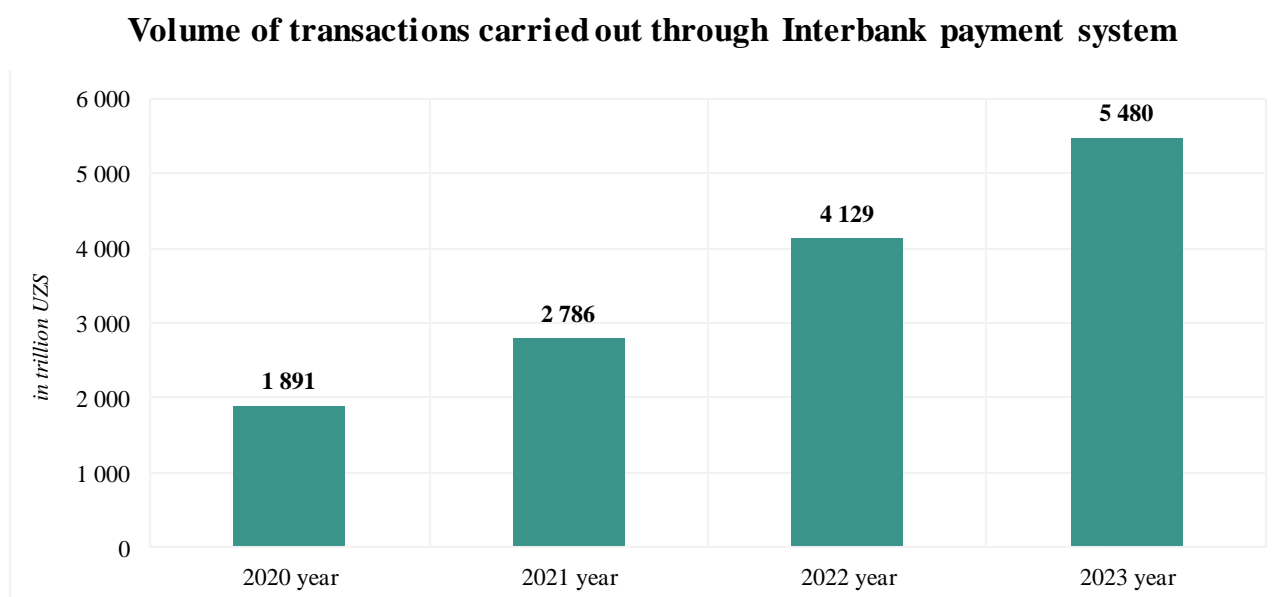
IV. DEVELOPMENT OF THE NATIONAL PAYMENT SYSTEM, INFORMATION TECHNOLOGY IN THE BANKING SYSTEM, INFORMATION PROTECTION AND CYBERSECURITY

4.1. Activities of payment systems of the Central Bank

In 2023, significant emphasis was placed on expanding the scope of non-cash payments through ensuring stable operation of payment systems and enhancing their infrastructure.

In particular, in 2023 the volume of transactions conducted through Interbank payment system of the Central Bank increased by **1,3** times compared to 2022, totaling **5 480** trillion UZS. The average volume of daily transactions through the system rose from 16,6 trillion UZS in 2022 to **22,1** trillion UZS.

Figure 4.1.1



Source: Central Bank data

The increase in the volume of transactions through Interbank payment system can be attributed to the scale of financing the economy, increased investment activity, and the volume of transactions in the money market between the Central Bank and commercial banks.

In 2023, the number of participants in Interbank payment system of the Central Bank reached 36 following the issuance of licenses to 3 commercial banks.

Additionally, in the reporting year, the procedure for electronic payments through Interbank payment system of the Central Bank was enhanced by introducing a rule that restricts participation in Clearing-settlement system and the Instant payment system for banks with an overdraft (*debt*) on their correspondent account at the end of the banking business day until the deficiency is resolved.

Furthermore, banks employing single banking code (*SBC*) technology, which enables customers to access high-quality banking services through any banking division by optimizing commercial bank branches and establishing compact banking service centers, increased by 2 in 2023, reached a total of 9.

Clearing-settlement system

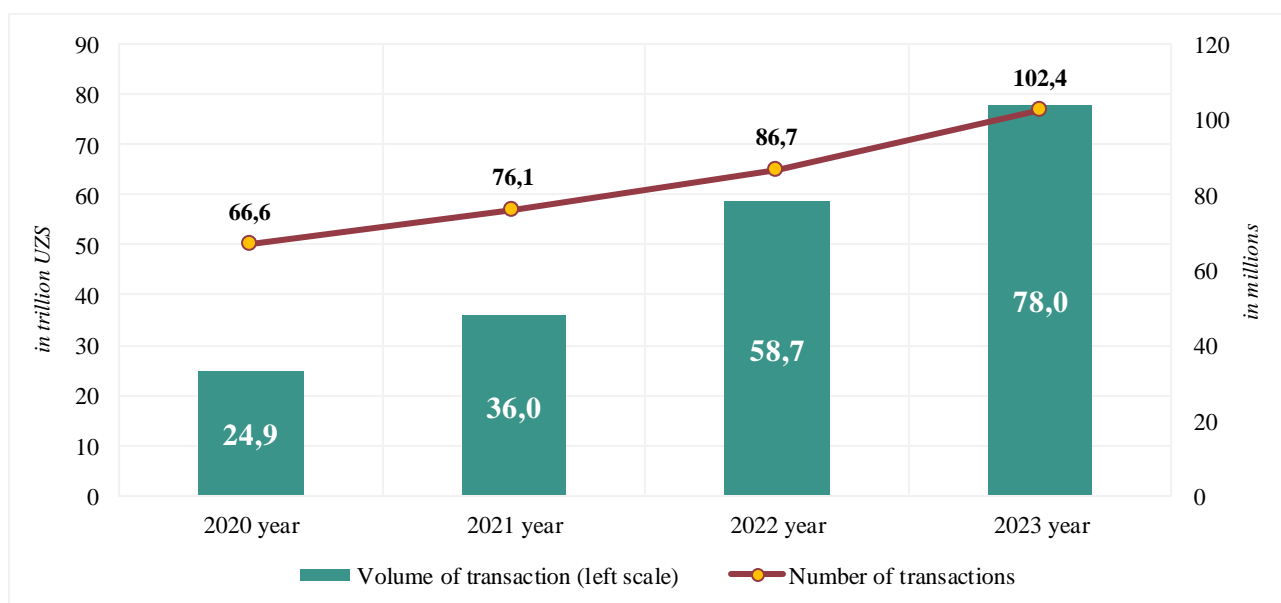
The continuity of operations of **Clearing-settlement system** of the Central Bank, which specializes in real-time retail payments of individuals and legal entities, was ensured.

In particular, special attention is given to expanding the list of organizations that accepts payments for goods and services through this system, as well as introducing convenient and user-friendly payment services for customers.

The number of institutions and organizations (*service providers*) accepting payments through Clearing-settlement system of the Central Bank reached **48** in the reporting year.

Figure 4.1.2

Indicators of Clearing-settlement system



Source: Central Bank data

In 2023, the volume of payments processed through Clearing-settlement system amounted to **78,0** trillion UZS, marking a **1,3 fold** increase compared to 2022. The number of transactions exceeded **102** million, which represented almost **1,2 fold** increase.

To promote the adoption of new payment types and methods in the payment services market, support fair competition, and new technological solutions, the Decree of the President of the Republic of Uzbekistan aimed at enhancing convenience for payments made by individuals was adopted.

In compliance with the requirements of this Decree, improvements were made to the software of Clearing-settlement system, and a mechanism was implemented to levy commission payments for utility bills, government duties and fines, government services, and other payments from recipient organizations (*beneficiaries*).

The collected fees and commissions for the provision of payment services are deducted from the payment amounts at the expense of the recipients of funds and transferred to commercial banks.

Additionally, the maximum amount of commissions (*fees*) to be paid when making payments to beneficiaries that are budgetary and corporate entities is capped at 20% of the base settlement value.

As a result, the practice of collecting intermediary fees from **individuals** for payments related to utilities, government services, fines, duties, and other similar payments has been abolished.

From May to December 2023, approximately **85 billion UZS** were paid to banks and other payment service providers in the form of commissions (*fees*) for more than **50 million** payments.

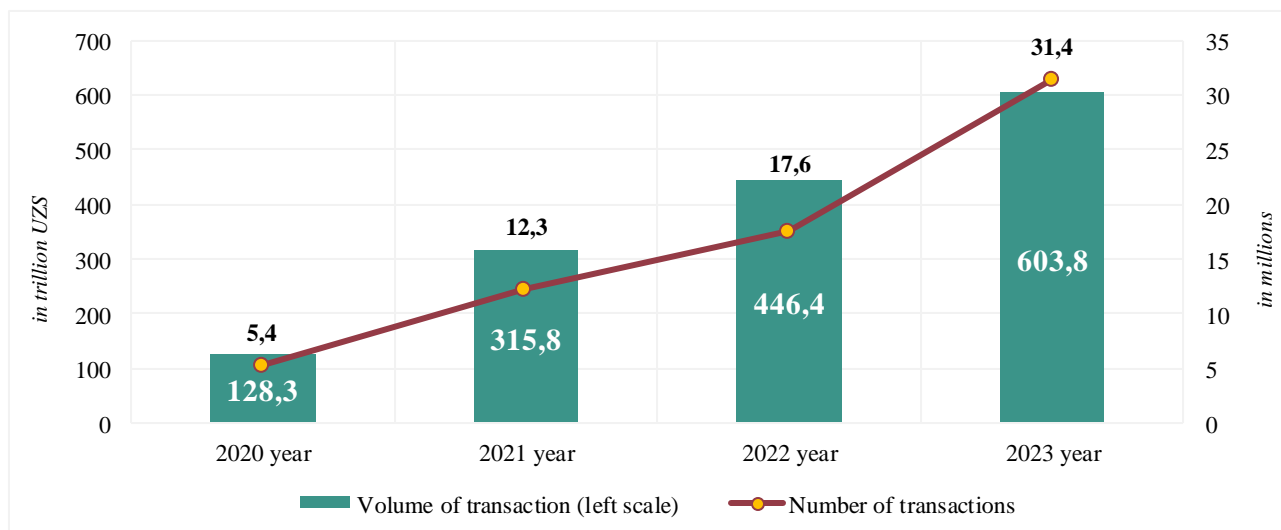
The collection of payments from recipients of funds for these fees enabled households to save approximately **85 billion UZS**.

Instant payment system

In the reporting year, the stable and sustainable functioning of the Central Bank’s **Instant payment system** was ensured, enabling legal entities and individual entrepreneurs to conduct payment transactions online day-to-night “24/7”.

Figure 4.1.3

Transactions made through Instant payment system



Source: Central Bank data

In 2023, the number of **transactions** conducted through this system increased by **1,8 times** compared to 2022, reaching **31,4 million**. The volume of payments also grew by nearly **1,4 times**, amounting to **603,8 trillion UZS**.

As a result of the increase in the volume of payments made through Instant payment system, by the end of the reporting year, **92%** of the total volume of payment documents by business entities were processed remotely, without requiring a visit to the bank.

This indicates that the widespread use of Instant payment system’s capabilities for remote management of business entities’ accounts is growing.

In the reporting year, **28%** of the total transactions made through this system were conducted during **evening/night**, this figure was 17% in 2022.

Organizations served by the Treasury were able to make online budget payments (*expenses, wages, pensions, and social benefits*) 24/7 through Instant payment system, regardless of banking hours.

4.2. Development of retail payment systems based on bank cards

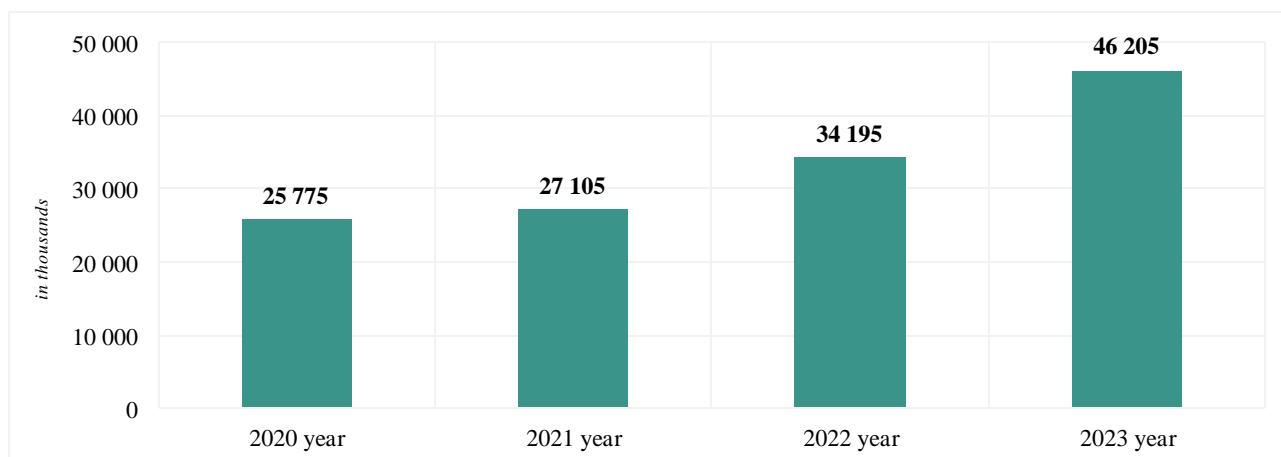
In 2023, special attention was directed towards expanding the infrastructure of retail payment systems based on bank cards and leveraging existing infrastructure to create favorable conditions for non-cash payments.

By mutually integrating the network of “Humo” and “Uzcard” ATMs, conditions were established for bank card users to alternatively use ATMs within the infrastructure of both payment systems.

In particular, the processes between these two payment systems are organized based on a “host2host” connection, facilitating seamless payment transactions for cash withdrawals.

Figure 4.2.1

Number of bank cards



Source: Central Bank data

The growing volume of use of remote banking services, in turn, contributes to the growth in demand for bank cards. In particular, in 2023, the number of bank cards issued in circulation reached **46,2 million**, increased by **35%** compared to 2022.

The number of **co-branded** bank cards, which enable the population to make payments from a single card across both domestic and foreign payment systems, increased by **1,7 times** compared to 2022, reached 3,1 million.

In 2023, the volume of payments received through 429 thousand payment terminals increased by **1,4 times** compared to 2022, totaled **254,7** trillion UZS.

As the functionality and infrastructure of retail payment systems expand, and with the formation of a competitive environment in this market, structural changes are observed in the volume of transactions conducted by participants in national payment systems through terminals.

In 2023, the share of transactions through Humo terminals in the total volume increased from 49% in 2022 to **59%**, while the share of Uzcard terminals decreased from 51% to **41%**.

Figure 4.2.2

Number of terminals installed by banks

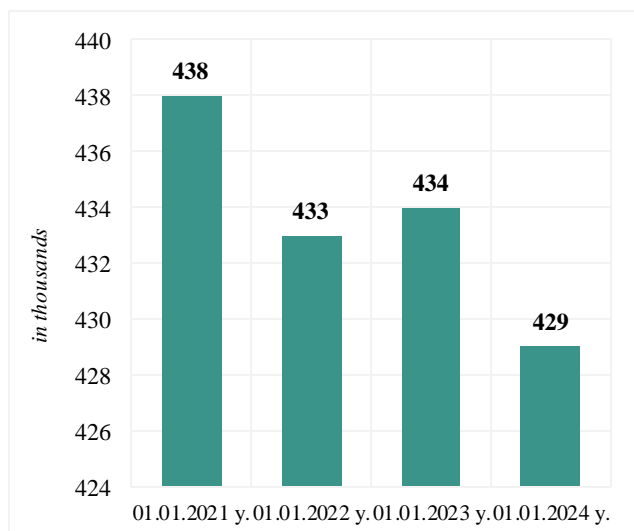
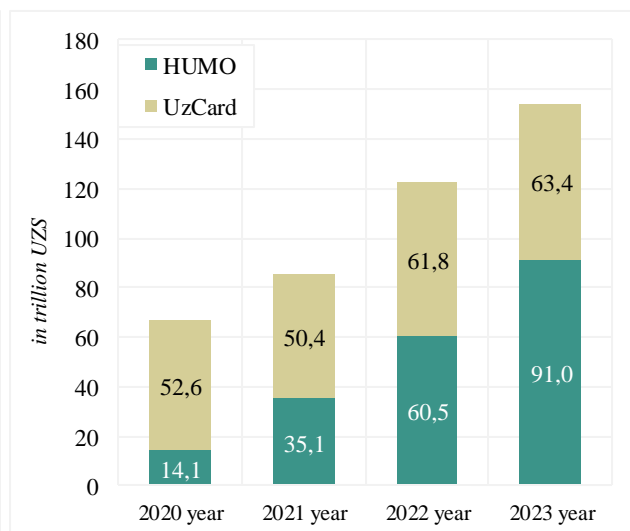


Figure 4.2.3

Transactions made through payment terminals

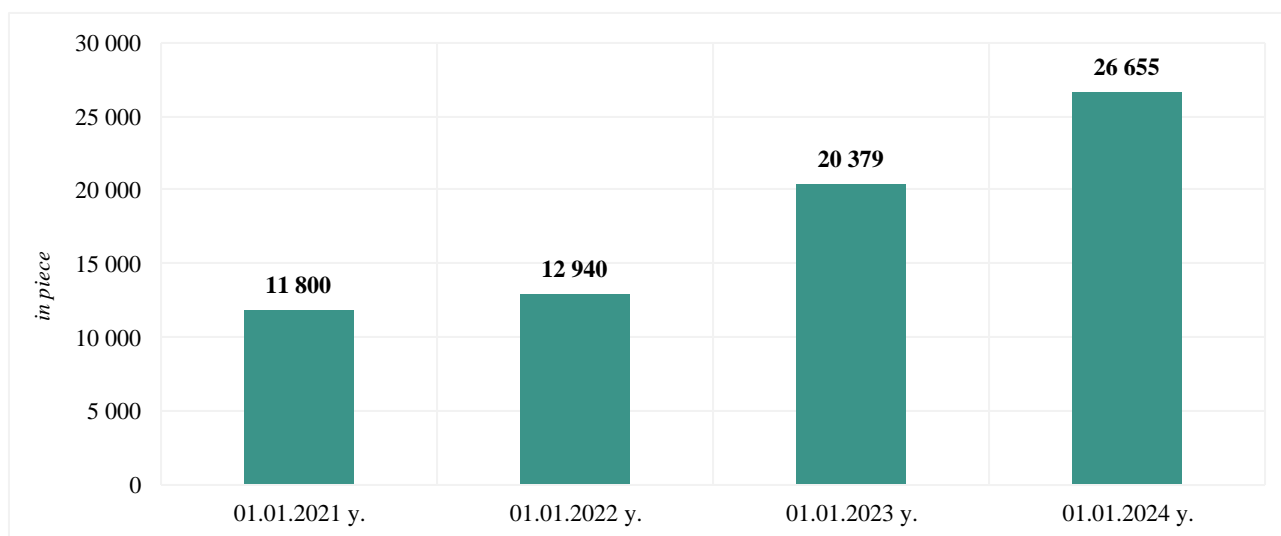


Source: Central Bank data

For the convenience of payment service users, the number of ATMs and information kiosks installed within banking infrastructure and tourism facilities increased by almost **1,3 times** during the reporting year, reached more than **26,6 thousand** as of January 1, 2024.

Figure 4.2.4

Number of ATMs and information kiosks

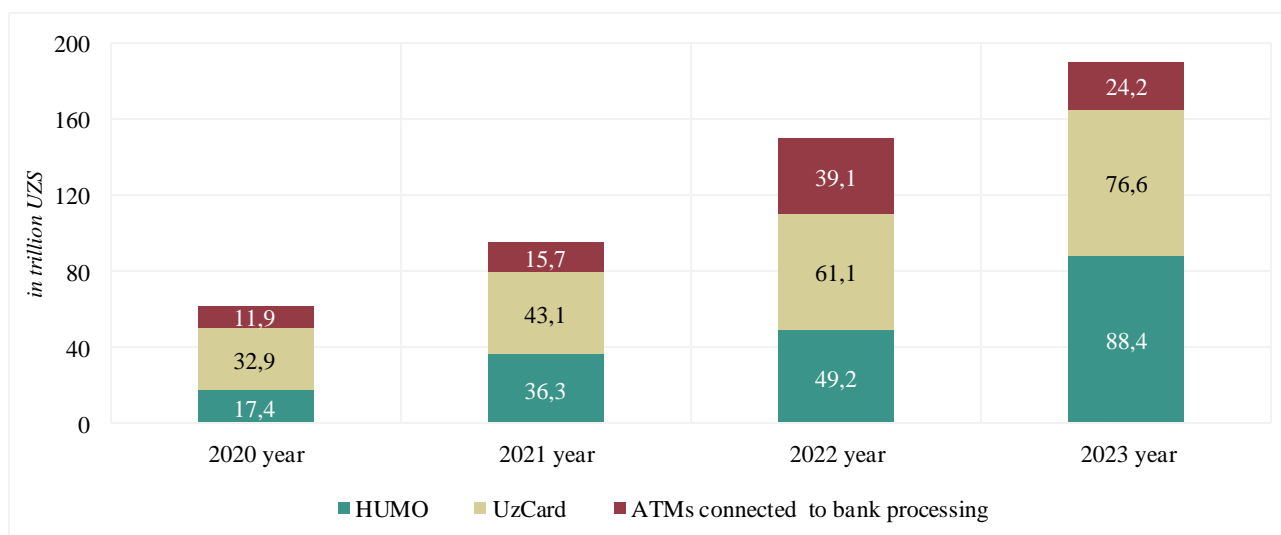


Source: Central bank data

In 2023, the share of transactions through Humo ATMs in the total ATM transactions increased from 33% in 2022 to 47%. Meanwhile, the share of Uzcard ATMs decreased slightly from 41% to 40%, and the share of ATMs connected to bank processing decreased from 26% to 13%.

Figure 4.2.5

Transactions through ATMs



Source: Central Bank data

During the reporting year, the number of remote services users increased by almost **1,5 times**, reached **44,1 million** as of January 1, 2024. Among these, **1,3 million** were business entities, and **42,8 million** were individuals.

In the reporting year, the volume of operations conducted remotely by individuals through mobile applications of banks amounted to **250,1 trillion UZS**.

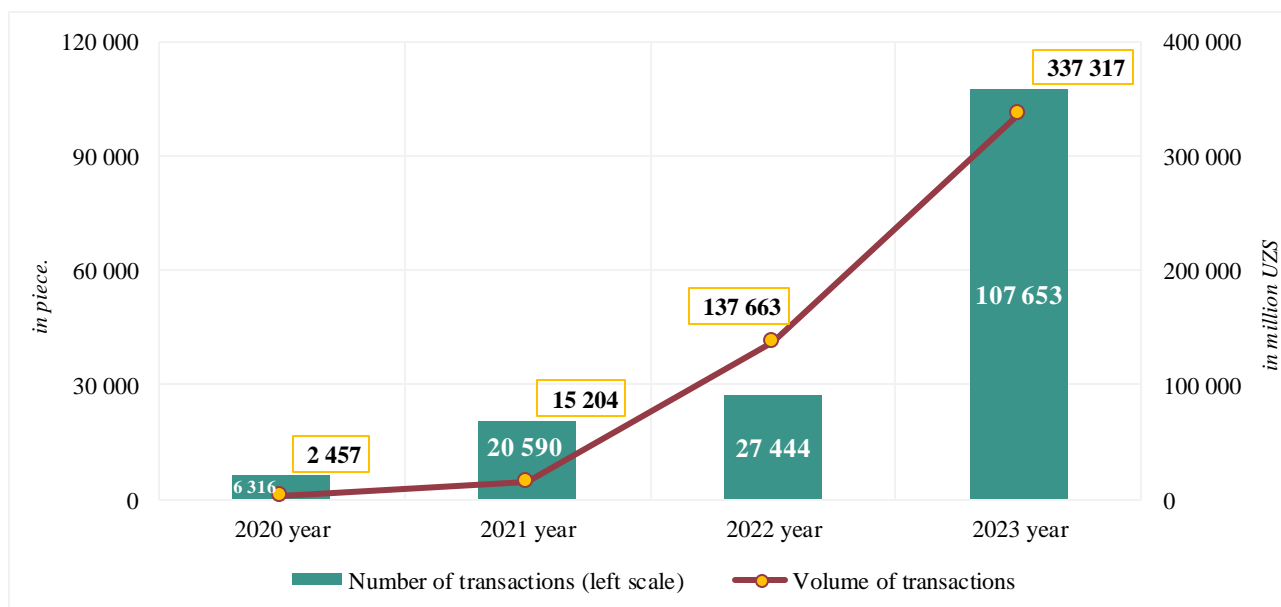
The volume of **online deposit** operations conducted through mobile applications amounted to **46,5** trillion UZS, while **online conversion** transactions totaled **27,4** trillion UZS, **online microloans** accounted for **13,3** trillion UZS, and **loan repayments** amounted to **15,3** trillion UZS.

The range of basic banking services for households was expanded to include online functionalities (*savings and conversion operations, microloans, ordering bank cards, and identification*), for **business entities, services** include accepting payments using QR codes, NFC, and other contactless payment technologies, in addition to payment terminals.

In 2023, the number of QR codes provided to business entities through “QR-online” information system reached nearly **101** thousand, and the volume of transactions increased by almost **2,5 times**, reached 337 billion UZS.

Figure 4.2.6

Number and volume of transactions made through QR-Online system



Source: Central Bank data

At the same time, as part of the expansion of contactless payment technology, the service for paying for goods and services without using a bank card is provided through the “Humo Pay” service via mobile applications of **23** commercial banks.

The number of entities using the services of **Tap-to-Phone** (*allows to accept payments through a payment terminal*), introduced as part of the development of contactless payment services, exceeded **3,1** thousand as of January 1, 2024.

In 2023, the volume of transactions based on NFC technology amounted to **37,7** trillion UZS, increased **1,5 times** compared to 2022.

In addition, as of January 1, 2024, the number of commercial banks using **Face ID** technology reached **27**, and the number of payment organizations reached **15**, the number of clients who identified through mobile applications of banks and payment organizations increased by **4,2** million compared to January 1, 2023, reached **6,8** million by the end of the reporting year.

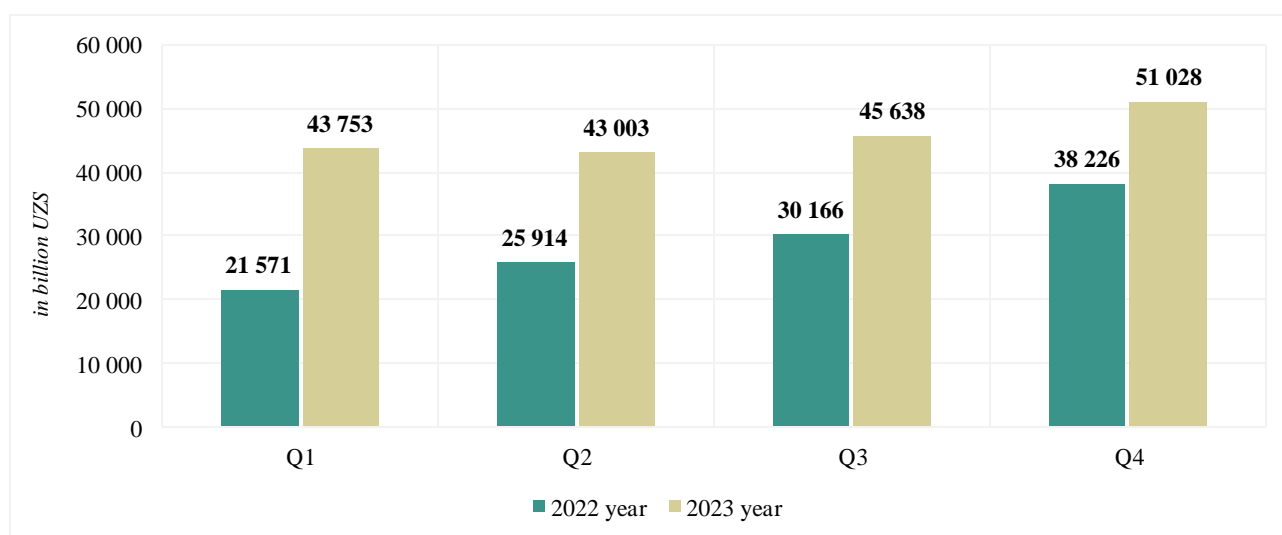
This growing trend is attributed to customers being provided with the opportunity to conduct online payments without visiting a bank, as well as to open bank accounts through remote identification system (*Face ID*).

4.3. Activities of fintech companies in the payment services market

In the reporting year, in order to enhance competition in the payment services market, the Central Bank continued issuing licenses to payment organizations, the number of payment organizations reached 49.

Figure 4.3.1

Volume of transactions conducted by payment organizations in 2022-2023



Source: Central Bank data

This is explained by the growing demand for the use of payment services not only from commercial banks, but also from payment organizations.

The number of transactions conducted by payment organizations in 2023 increased by **1,6 times** compared to 2022, amounted to 183 trillion UZS.

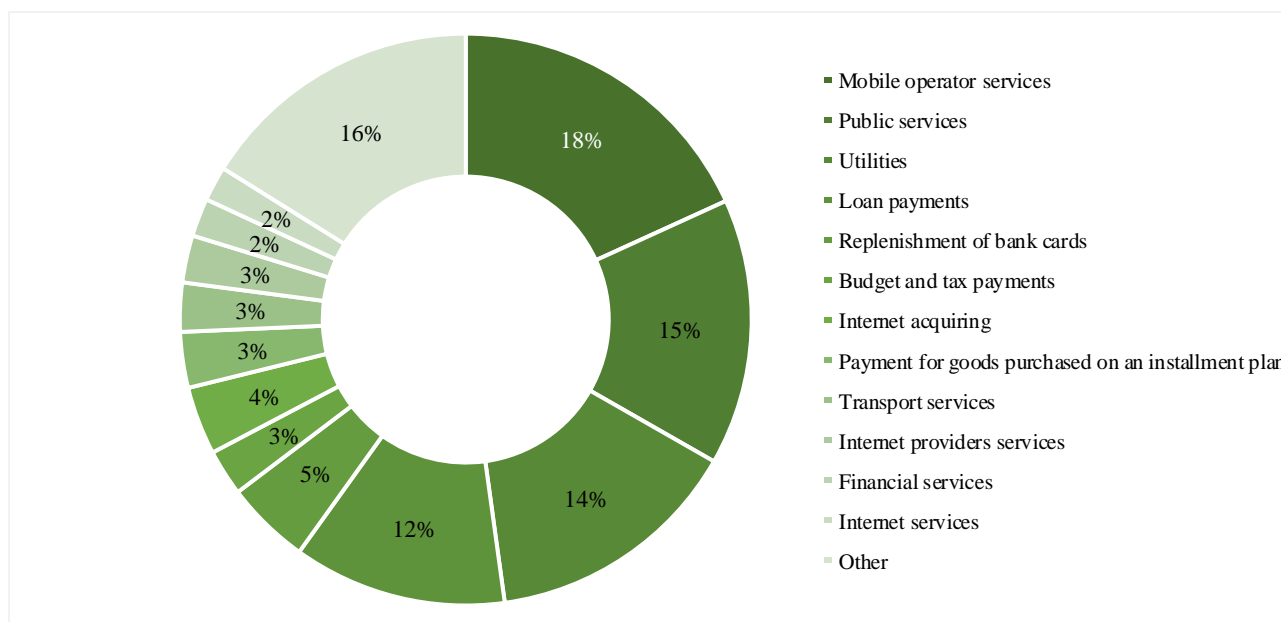
In the reporting year, using the services of payment organizations, individuals made payments for **services of mobile operators** – 9,8 trillion UZS, **public services** – 8,2 trillion UZS, **utilities** – 7,9 trillion UZS, for **loan repayments** – 6,5 trillion UZS, for duties and **tax payments to the budget** – 1,4 trillion UZS.

The introduction of electronic money systems in the payment services market facilitated further development of non-cash payments and additional opportunities for users of payment services.

As of January 1, 2024, there were 13 electronic money systems included in the register of electronic money systems by the Central Bank and the number of electronic wallets opened in these systems increased from 8,4 million to 15,6 million.

Figure 4.3.2

Structure of payments conducted by payment organizations according to their purpose



Source: Central Bank data

Also, in the reporting year, the number of transactions through electronic money systems increased by 1,4 times, amounted to 16,5 million, and the volume of transactions rose by 4,5 times, reached 1,2 trillion UZS. The growing adoption of electronic money among consumers can be attributed to its convenience for online purchases, including the ability to make payments on marketplaces seamlessly.

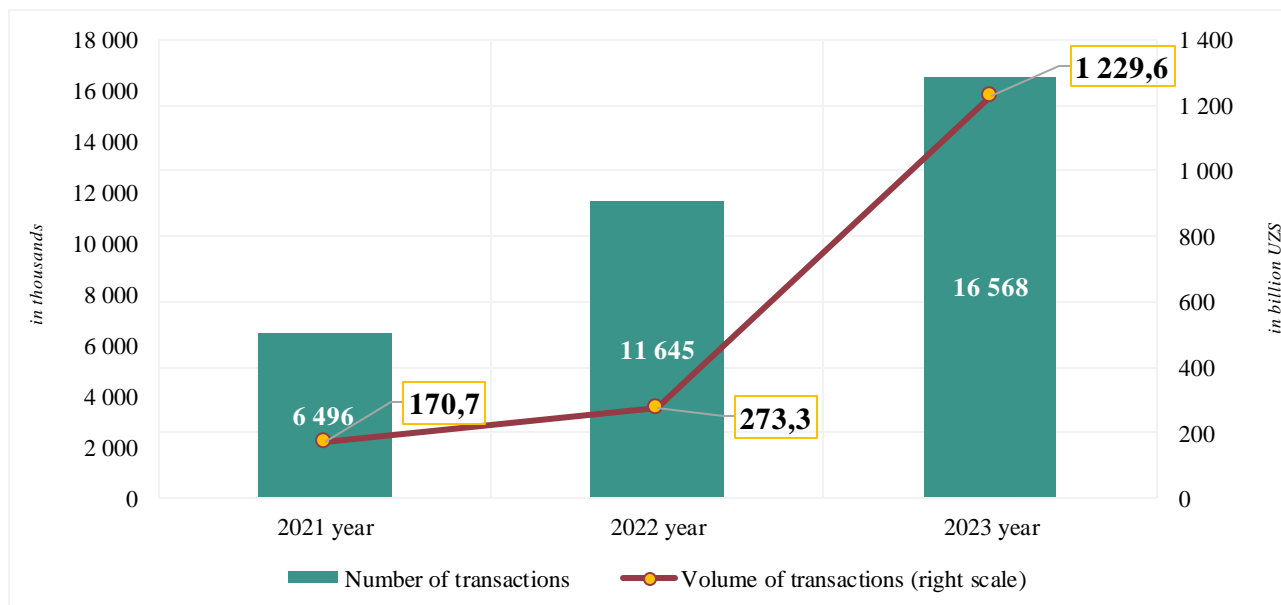
92% of transactions made by electronic wallet holders were payments for goods (service or work) to business entities, while 8% of transactions were transfers to individuals.

59% of payments through electronic money were transferred for online purchase of goods and services, 17% for payments on social networks, 7% for the services of mobile operators, 4% for utilities, 2% for on-site payments, 1% for public services, 1% for replenishing foreign electronic wallets and 6% for other services.

During the reporting period, certain works were carried out to organize the provision of new payment services within the framework of a special legal regime.

Figure 4.3.3

Transactions carried out through electronic money systems in 2021-2023.



Source: Central Bank data

In order to provide additional opportunities for users of payment services, a temporary procedure was developed for issuing cash to bank card holders simultaneously when making purchases at trade and service organizations.

Initially, this service was authorized through “Uzpaynet” LLC, a payment organization equipped with a virtual cash register network. The service facilitates cash withdrawals from bank cards via payment agents of “Uzpaynet” LLC nationwide and the current authorization period set until June 1, 2024.

From June to November 2023, under the ‘regulatory sandbox’ framework, payment agents of “Uzpaynet” LLC conducted 11 381 transactions to issue cash from bank cards, totaling 3 billion UZS, across 146 service points located in the city of Tashkent.

Based on risk analysis associated with cash issuance by payment agents and monthly performance data, a regulatory document is planned to be developed. This document will outline guidelines for cash issuance within limits set by the Central Bank, ensuring compliance with daily cash receipt requirements at trade and service enterprises.

4.4. Ensuring information and cybersecurity in commercial banks and payment systems

In the reporting year, with the help of special programs, the level of cybersecurity of information systems and resources of payment organizations and banks was analyzed.

It was determined that in order to eliminate the identified shortcomings, the Central Bank will fulfill over **50** technical requirements for the development of monitoring systems, as well as integration into the monitoring systems of the Central Bank, ensuring the security of ATMs, conducting an examination of information systems and mobile applications and introducing anti-fraud systems.

Payment system operators, credit institutions, and payment organizations now have the capability to promptly report cybersecurity incidents to “CERT-CBU” center of the Central Bank via the official website of the center. Additionally, they are provided with a platform to report instances of fake links utilizing the official logos of commercial banks, payment system operators, and payment organizations.

In the year 2023, the Central Bank received a total of 917 requests from law enforcement agencies in compliance with law for obtaining information constituting bank secrecy.

In order to carry out explanatory work among the population on cases of fraud using bank cards, 6 text materials and 3 videos were prepared and were regularly posted in mass media, as well as on the official website and social media channels of the Central Bank.

The Central Bank in collaboration with commercial banks, payment system operators, payment organizations, as well as internal affairs bodies, took measures to prevent transfer of funds through mobile applications to foreign accounts by blocking cards that were involved in fraudulent schemes.

To prevent fraudulent transactions related to bank cards, additional security requirements were implemented for mobile applications such as, biometric identification of clients when transferring funds, confirming transfers and managing accounts.

In turn, commercial banks and payment organizations began to use **multi-factor identification methods** for their mobile applications, and warn clients about the non-disclosure of bank card information, OTP codes, and also provide recommendations on secure usage of their mobile applications.

In addition, as part of measures to protect the rights of consumers of digital products (services) and combat crimes committed through digital technologies, work has begun to introduce a modern biometric identification system, as well as a

transactional anti-fraud system for payment system operators and a **centralized anti-fraud** system in the Central Bank for the use of **sessional anti-fraud systems** in banks and payment organizations.

In order to identify, prevent and combat new types of cyber threats in the activities of commercial banks, payment system operators and payment organizations, in 2023, cooperation was established to exchange experience with relevant ministries and agencies, as well as leading international organizations in the field of ensuring cybersecurity.

As part of this cooperation, forums and seminars were organized with the participation of responsible employees on information and cyber security of commercial banks, payment system operators and payment organizations, where more than 200 specialists improved their skills.

4.5. Introduction and improvement of digital technologies in the Central Bank system

In 2023, certain work was carried out to improve the infrastructure of digital technologies and the material and technical base of the Central Bank, including the introduction of new information systems and resources, ensuring the continuous and stable operation of existing ones, and expanding integration with information systems of government bodies and organizations.

Technical-project documents have been developed for a unified information space facilitating information exchange about customs declarations between the Central Bank and the Customs committee, as well as accounting for foreign exchange transactions of commercial banks relating to currency purchase and sale transactions (FERUZ) for legal entities and individuals.

In order to create convenience in keeping records of cash and correspondent accounts between divisions of commercial banks, speed up the exchange of cash and correspondent accounts, and ensure the participation of all divisions of commercial banks on equal rights and conditions, technical project documentation for the information system electronic cash field was designed and developed.

“G‘azna-resurs” system of Treasury service committee under the Ministry of economy and finance of the Republic of Uzbekistan was integrated with the Central Bank system in order to place temporarily free resources in deposits without human involvement.

Information exchange between the Department for combating economic crimes under General Prosecutor’s Office of the Republic of Uzbekistan and the systems of the Central Bank has been expanded.

Information exchange with commercial banks on the execution of electronic payment documents through “BankMail” system with the Tax and customs committees under the Cabinet of Ministers, the Bureau of compulsory enforcement under the General Prosecutor’s Office, “Hududiy elektr tarmoqlari” JSC and “O‘zsuvtalminot” JSC has also been improved.

The coverage of services offered by the Clearing-settlement system of the Central Bank has been broadened. This expansion involved payments to “Veolia energy Tashkent” LLC for heat supply, as well as, payments to Ministry of higher education for various services including “Contracts”, “Payment for dormitory”, “Payment for credit module”, “Payment for diploma restoration”.

The stable operation of the official website of the Central Bank was ensured, the possibilities of improving the design and structure of the site, and simultaneously obtaining one or more types of data in a visual form (*graphics*) have been expanded.

In order to provide comprehensive and high-quality information to households, business entities and foreign investors, the number of open data to be posted on the “Open data portal” was increased to 60.

In addition, in order to introduce effective and high-tech supervisory tools (*SupTech*) in the Central Bank system, an extensive study was conducted on high-tech solutions available in global financial markets and capabilities of modern technologies used by Central Banks (*regulators*).

In particular, negotiations were conducted to explore cooperation with international consulting companies and vendors, such as Bearing Point Software Solutions (Netherlands), Oracle (USA), CoreFiling (UK), Invoke (France), Finastra (UK), DIS GROUP (Russia), ADASTRA (Czech Republic), and also reviewed their performances.

As part of ongoing SupTech projects, the practice of studying reports and electronic requirements were begun in order to generate reports automatically that submitted by commercial banks to the Central Bank, as well as to monitor remotely bank activities.

In order to provide information more than 140 electronic requirements were developed and these allowed information providers to transfer information **automatically** to the information system of the Central Bank.

In order to conduct data analysis, specialists of the Central Bank are using Oracle Discoverer business intelligence platform through “Banking system data warehouse” information system to generate automatically over 3 200 reports by segments, banks and regions.

In order to implement the first stage of automating supervisory reports (ADR) project, cooperation was established with “KPMG Audit” consulting organization.

This cooperation entails an examination of the information systems and data utilized by the Central Bank, along with associated regulatory framework. Recommendations for data management system and model, as well as a transformation plan, are being developed.

V. ORGANIZATION OF MONEY CIRCULATION

In 2023, money circulation system formed under the influence of socio-economic factors, including changes in monetary policy and the infrastructure of banking-finance.

In 2023, there was a change in the demand for cash due to the influence of seasonal factors, and the main attention was paid to the stable supply of cash, as well as the creation of convenience in payments for cash services of individuals and business entities.

In particular, in the reporting year, efforts were continued to liberalize cash circulation and cash flow management methods, further creating convenience in processes related to cash logistics and the introduction of digital technologies into the system.

5.1. Cash circulation and the dynamics of its changes

In 2023, cash circulation was formed within its trend without significant changes in the dynamics of flows and outflows at banks' cash desks.

In particular, in 2023, bank cash turnover amounted to 831,4 trillion UZS, and increased by 1,2 times compared to 2022. The volume of cash receipts at banks' cash desks increased by 20,4% compared to 2022, totaled 413,9 trillion UZS.

The volume of cash receipts at banks' cash desks from the sale of goods increased by 16,8%, from the provision of paid services – by 50,5%, from banking services (*deposits of individuals, loan payments, sales of foreign currency and conversion operations*) – by 20,5%, from taxes and revenues from other areas – by 69,7%.

Figure 5.1.1

Dynamics of the volume and structure of cash receipts



Source: Central Bank data

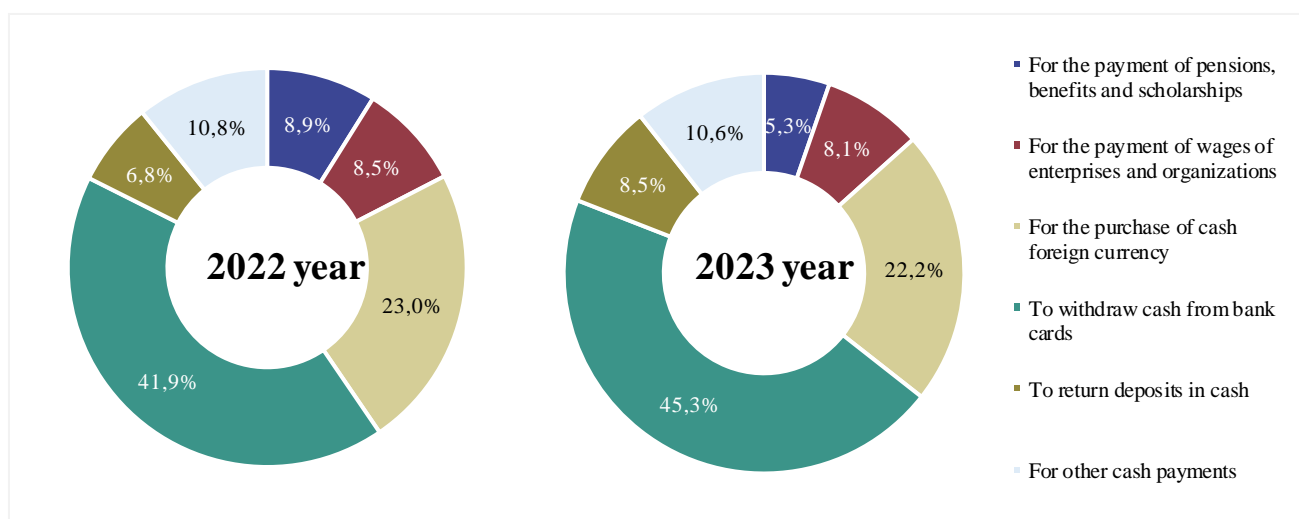
In the structure of total cash receipts, sale of goods constituted 38%, provision of paid services – 10%, banking services – 33%, taxes and other receipts – 18%.

There was an increase in the ratio of the volume of cash receipts at bank cash desks to GDP compared to previous years. In 2022 this ratio indicated 38,4%, in the reporting year it reached 38,8%.

In 2023, the volume of cash given to individuals and business entities in banking cash circulation increased by 17,1% compared to 2022, reached 417,5 trillion UZS.

Figure 5.1.2

Directions of cash distribution



Source: Central Bank data

In the reporting year, demand for cash increased by 61,6 trillion UZS compared to last year, is mainly explained by:

- an increase in the volume of deposits to bank cards – by 42,6% and cash withdrawals from bank cards rising – by 39,8 trillion UZS;
- an increase in the volume of foreign currency purchases by banks from households by 10,7 trillion UZS due to rise in remittances to the country;
- an increase in the volume of cash withdrawals from deposit accounts by 11,1 trillion UZS.

In 2023, the volume of cash withdrawals from ATMs increased by 37,0 trillion UZS, marking a growth of 31,6% compared to 2022. As a result, the share of cash withdrawals from ATMs reached 81,5%, compared to 78,4% in 2022.

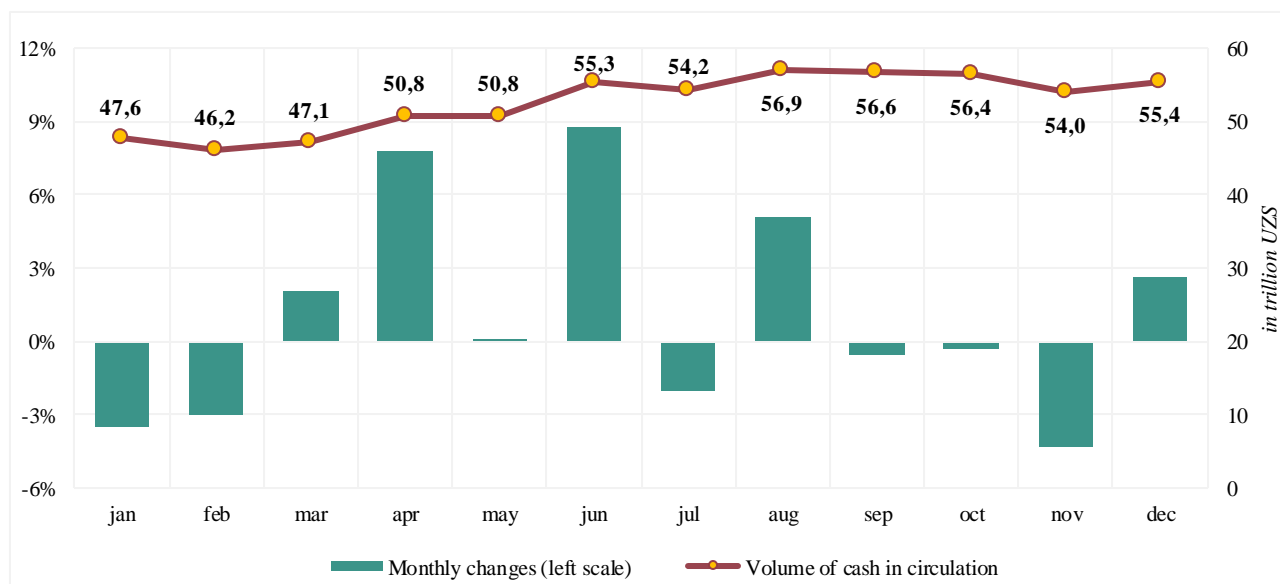
The increase in cash withdrawals from ATMs in 2023 stemmed from the expansion of ATM network and integration between “Humo” and “Uzcard”, ensuring stable cash supply.

5.2. Cash in circulation and its structural changes

In 2023, works continued to renew the structure of cash in circulation through commercial banks, to issue banknotes and coins into circulation, to ensure their optimal reserves in the required denominations, as well as to utilize outdated money.

Figure 5.2.1

Changes in the volume of cash in circulation during 2023



Source: Central Bank data

As of January 1, 2024, the volume of cash in circulation (*including cash in the cash desks of commercial banks*) increased by 6,1 trillion UZS or 11,1% compared to corresponding period of 2023, and dynamics of its annual growth slowed down compared to 2022 (49,1%) and 2021 (17,1%).

In the reporting year, as part of the optimization of the nominal range of cash in circulation, there was 3.1 trillion UZS decrease in banknotes in denominations of 1 000 UZS, 5 000 UZS, 10 000 UZS and 50 000 UZS and 9,2 trillion UZS increase in banknotes in denominations of 2 000 UZS, 20 000 UZS, 100 000 UZS and 200 000.

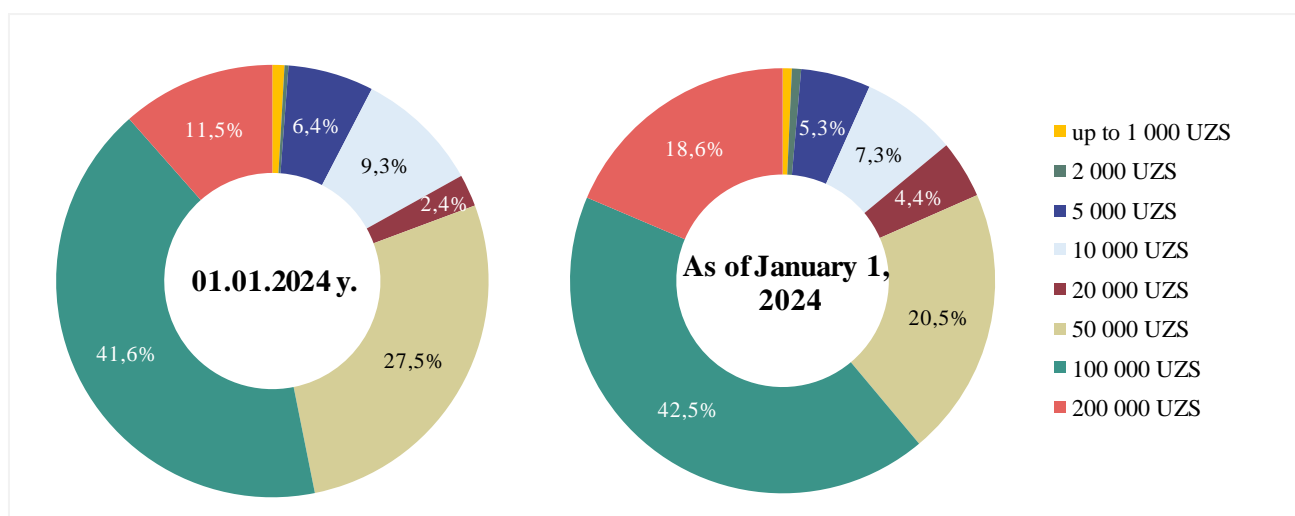
Furthermore, the volume of coins in circulation increased by 1,2 times, and their share in the total structure of banknotes in circulation reached 0,3%.

Works continued to renew cash in circulation by step-by-step exchanging banknotes issued before 2021 and deposited in bank cash desks to new banknotes in denominations of 5 000, 10 000, 50 000 and 100 000 UZS.

At the end of 2023, the share of new banknotes with a face value of 5 000 UZS in the total volume of banknotes of the same denomination was 33,2%, banknotes of 10 000 UZS were 36%, banknotes of 50 000 UZS were 39,4%, and banknotes of 100 000 UZS were 61,2%.

Figure 5.2.2

Share of banknotes (banknotes and coins) in circulation by face value



Source: Central Bank data

As of January 1, 2024, the share of new (*samples of 2021-2022*) banknotes (*including banknotes in denominations of 2 000, 20 000, 200 000 UZS*) in total banknotes in circulation increased from 20,8% to 45,6% compared to 2022 (*share by volume size - from 44,9% to 62,1%*).

Due to an increase in the share of new banknotes in large denominations, the number of banknotes in circulation decreased by 54,0 million pieces or by 2,6% compared to the beginning of 2023. The number of banknotes per person was 55 pieces.

In order to activate circulation of coins, additional coins worth 88,7 billion UZS were issued and its volume increased by 2,1 times compared to 2022, reached 167,2 billion UZS.

Measures are being determined to introduce digital technologies, new and acceptable mechanisms for regulating cash circulation and managing cash flows, liberalizing and simplifying processes for the redistribution (movement) of cash.

The information system “Electronic field of cash” was introduced, enabling real-time information exchange between commercial banks regarding supply and demand for cash.

This mechanism makes it possible to simplify processes related to the movement of cash, optimization of expenses, transportation of cash and the exchange of liquid assets in national currency to non-cash equivalents between branches of commercial banks.

Cash delivery between branches of commercial banks is carried out without the participation of the Central Bank, logistics of cash is organized between branches of commercial banks through collection services.

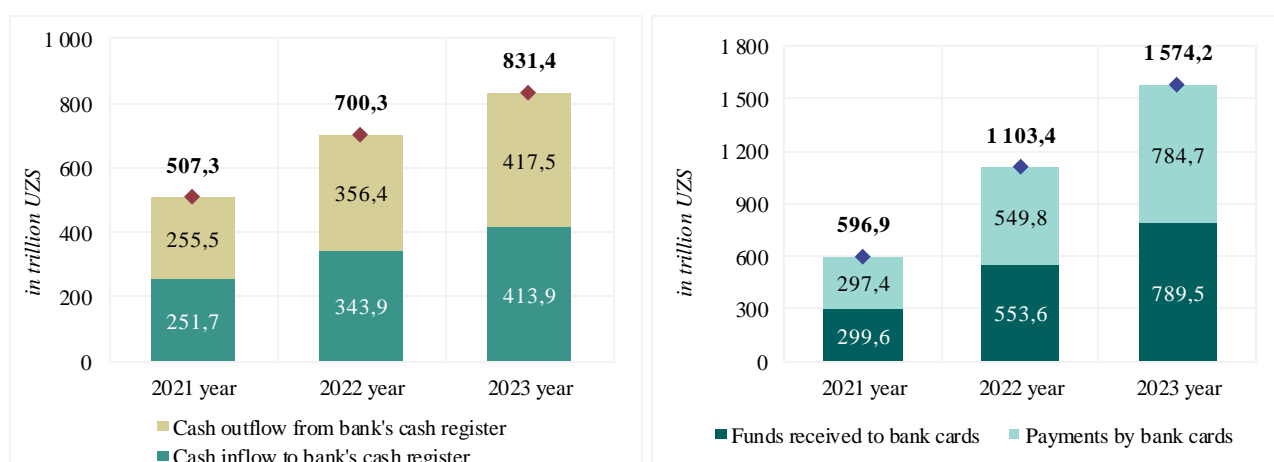
5.3. Operations with bank cards

The expansion of the payment systems infrastructure and user's preference for non-cash payments were reflected in the growth in the volume of operations by individuals through bank cards. The volume of these operations increased by 470,8 trillion UZS or 42,7%, and amounted to 1 574,2 trillion UZS compared to 2022.

The amount of receipts to bank cards amounted to 789,5 trillion UZS, the amount of payments made through bank cards (*including cash withdrawals*) totaled to **784,7** trillion UZS.

Figure 5.3.1

Dynamics of bank card turnover

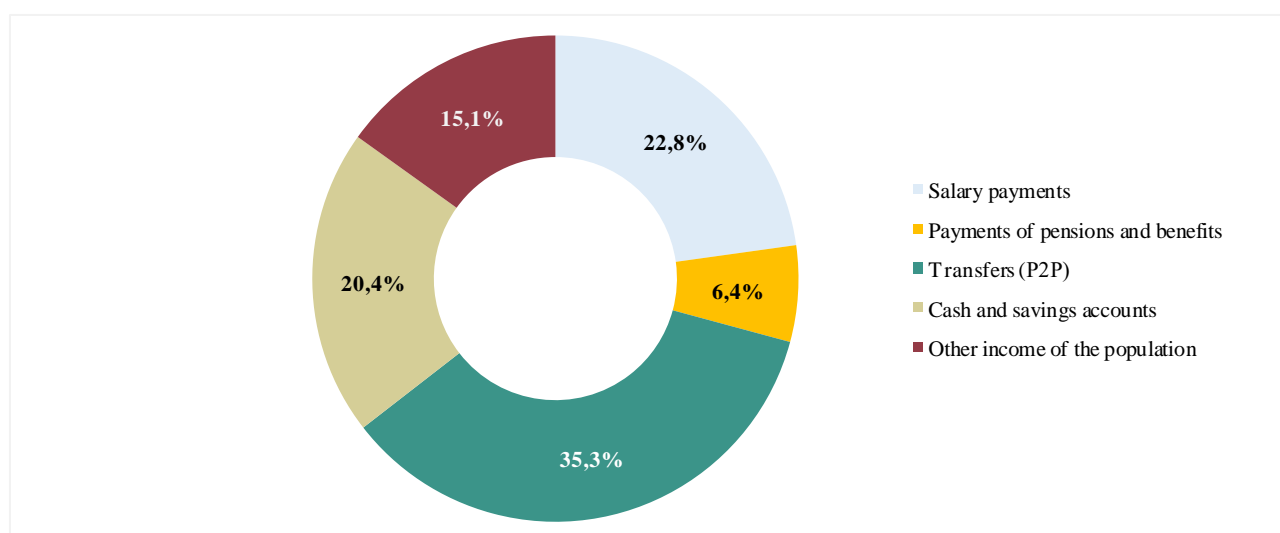


Source: Central Bank data

In the reporting year, payments for pensions, benefits, scholarships, and wages accounted for 29,2% of total receipts to bank cards, funds received from deposit accounts represented 20,4%, while (*P2P*) transfers indicated 35,3%.

Figure 5.3.2

Share of inflow to bank cards by sources in 2023



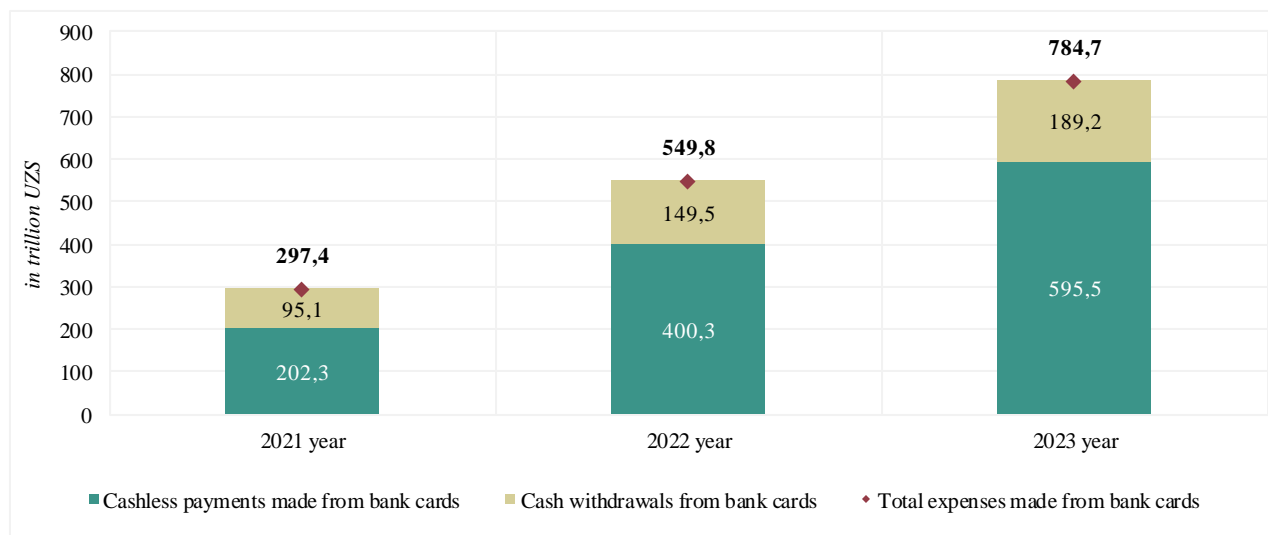
Source: Central Bank data

The share of non-cash payments in total payments for goods and services, as well as for money transfers increased from 73% to 76% compared to 2022.

The rise of receipts to bank cards had a positive impact on the growth in settlements through payment terminals for and paid services.

Figure 5.3.3

Volume of expenses made from bank cards (by type of expenses)



Source: Central Bank data

In particular, the share of revenues from terminals for trade and paid services in total revenues increased by 2,7% compared to 2022, and amounted to 39,9%.

VI. ACTIVITIES TO INCREASE THE ACCESSIBILITY OF FINANCIAL SERVICES AND PROTECT THE RIGHTS OF BANKING SERVICE CONSUMERS

6.1. Improving financial inclusion

In 2023, efforts were continued to expand the network of compact and multifunctional banking offices. This initiative aimed to enhance accessibility of financial services for households and business entities and ensure that banking services are accessible to all segments of society.

As part of the ongoing measures, the number of banking service points increased by **539** compared to the previous year, reached **13 761** as of January 1, 2024.

In particular, in 2023, banks opened additional **286** banking service centers across the country, **88** of these centers established in areas that previously uncovered with banking services.

To enhance day-to-night accessibility of banking services for households, banks established additional **749** “24/7” self-service centers in 2023. This represented **25%** increase compared to the corresponding period in 2022, reached **3 723**.

The indicator of banking service points **per 100 000 adults** reached **56** which represented 2% increase compared to the beginning of the year.

The highest indicator was recorded in the city of Tashkent (*177*), the lowest indicators were observed in the Andijan region (*32*), Surkhandarya region (*36*), and Kashkadarya region (*37*).

In 2023, the goals outlined in the national strategy for increasing financial inclusion for 2021-2023, developed by the Central Bank in collaboration with the World Bank, were successfully accomplished.

Within **5 frameworks** of this strategy, **51** relevant activities aimed at increasing the coverage of basic financial services, developing digital financial services, expanding financing for small businesses, strengthening the protection of the rights of financial service consumers, and enhancing financial literacy of households and entrepreneurs were implemented. Furthermore, **22** target indicators set by the strategy were successfully achieved.

In particular, over the past three years, the share of administrative-territorial units with adults of more than 5,000 people with at least one banking service point has increased from **58%** to **85%** (*target – 70%*), the number of ATMs has increased from **6 500** to **13 600** (*target – 9 thousand*), the number of active bank cards in

circulation increased from **25,8** million to **46,2** million (*target – 30 million*), the number of electronic wallets rose from **1,5** million to **15,6** million (*target – 3 million*), the share of the adults who obtained a loan or had a line of credit increased from **13%** to **21%** (*target – 15%*), the number of individuals covered by international educational activities increased from **20** thousand to **191** thousand (*target – 40 thousand*).

In the reporting year, activities aimed at developing the provision of banking services through other alternative routes (*channels*) were continued.

In particular, in order to enhance accessibility of microfinance services, support entrepreneurial initiatives of households, expand usage of microfinance services across regions, generate supplementary financial resources for microfinance organizations, and strengthen the “chain” between microfinance organisations and commercial banks, corresponding Presidential Resolution was passed.

6.2. Improving financial literacy

In the reporting year, based on gained experience in improving financial literacy, special attention was paid to improve digital financial literacy of households, to reinforce financial knowledge of residents of remote regions in partnership with other organisations, to advance financial education channels in educational institutions, and to implement new approaches in this direction.

Within the framework of the projects, activities were aimed at developing saving culture of households, responsible borrowing and ensuring personal financial security, increasing digital financial literacy, as well as opening and running a business.

90 educational events within **21** projects were organised in order to increase financial literacy of households and more than **508** thousand people participated which is **1,3 times** greater than 2022.

In the reporting year, projects for residents of remote areas of the republic, particularly those in regions classified as the 4th and 5th categories, were prioritized.

In particular, in order to improve the financial literacy of **women, youth, migrant workers and members of their families**, **154** training seminars were organised, which covered **16 317** people from **127** districts of the regions and the Republic of Karakalpakstan.

International educational events such as “World Money Week” and “World Savings Day” were held in collaboration with **21** commercial banks and **14** insurance companies.

Within the framework of **10** projects, **214 869** people were covered, of which, **25 866** pupils were trained in financial mathematics, the culture of savings and the rules for ensuring personal financial security.

In order to develop fundamental financial knowledge and skills in using banking products and services among pupils, **17** commercial banks organized **5 871** open lessons for more than **195** thousand pupils in grades 5-11 of secondary schools of the Republic.

During master classes aimed at the young, **2 471** individuals participated in developing skills in responsible borrowing, preventing financial fraud, and learning tools for safely increasing resources and starting a business.

In order to increase financial literacy of consumers of banking services, the practice of providing financial advice has been introduced at reception of the bank.

To implement this project, qualifications of **186** specialists from **13** commercial banks were requalified as **trainers**, who subsequently trained **329** consultants to provide financial advice to individuals in the regions. Within the framework of the project **30 389** individuals were covered.

Alongside this initiative in collaboration with other organisations, opportunities for learning digital financial literacy were broadened for individuals using educational technologies in **traditional and non-standard formats**.

In particular, a training module on financial literacy “Digital financial literacy” was added to free **IT-Park** training course “Computer literacy”. As a result, within the framework of the project, total of 2 224 course participants improved their knowledge using ToT (*Training of trainers*) methodology in **14** regional IT centers.

In addition, based on “World of Finance” platform (<https://financeworld.uz>), developed jointly with **VISA international company** using “edutainment” technology, users were able to remotely improve their knowledge and skills in the field of banking services, personal expense management, financial security and the fundamentals of entrepreneurship.

In order to improve financial literacy of students at **educational institutions**, rational tools were selected and projects were implemented with a delicate approach aimed at developing knowledge and skills.

In particular, in collaboration with “Kundalik” LLC, “Financial literacy in schools” curriculum which integrated financial literacy components into academic disciplines of grades 5-11, was posted on “**eMaktab**” platform. Additionally, it is planned to monitor and test pupils’ knowledge, as well as improve qualifications of teachers.

In order to develop financial education in **non-economic higher education institutions**, based on data recommended by the Ministry of higher education, science and innovation, 22 non-economic higher education institutions were presented with “Fundamentals of financial literacy” textbook for use in current courses or special courses.

Furthermore, to improve financial literacy of students at non-economic higher educational institutions, **190** students from economic higher educational institutions were trained as volunteer-trainers and they conducted **88** training seminars covering **8 057** students. The mechanism for rewarding student-volunteers, served as a unique motivation for conducting well-organised events.

Additionally, through extensive awareness-raising initiatives aimed at developing correct financial behavior, approximately 3,5 million individuals were reached via social media (*Finlit.uz website, pages in social networks*).

Simultaneously, projects focused on financial literacy via various media platforms, including Darakchi newspaper, educational projects and quizzes on radio channels such as “Avtoradio”, “Oriatdono”, “Vodiy Sadosi”, and 8 regional radio channels, as well as morning programs on TV channels “MY5” and “Uzreport” collectively reached approximately 4,4 million individuals.

6.3. Protection of the rights of consumers of banking services

In 2023, Service for the protection of rights of consumers of banking services enhanced regulations aimed at addressing systemic shortcomings encountered by consumers in practice when using banking services. These improvements were targeted at resolving issues frequently raised in appeals received by the Central Bank.

In particular, measures were taken to prevent an escalation of debt burden of borrowers who struggled to repay their credit obligations promptly. These efforts aimed to enhance the creditworthiness of both individuals and businesses. Specifically:

- in case borrowers were unable to repay their debts, a procedure was introduced to facilitate direct repayment of overdue principal and interest;
- a bill has been drafted to amend Civil Code, proposing the suspension of interest and penalty accrual when a court decision is issued for loan debt collection;
- bank employees are now required to explain the **risks** that collateral providers or third-party guarantors may face in the future under loan, pledge, or guarantee agreements;

– banks are **prohibited** from offering **subordinated debt** to consumers as a **deposit or deposit-equivalent debt**.

Based on experience of foreign countries in limiting the use of “unfair practices” by bank employees during the collection of overdue loans and preventing provision of incorrect or misleading information regarding consequences of non-payment, recommendations were developed to ensure the protection of individuals’ rights and legitimate interests in debt collection processes.

As part of the implementation of control tasks in the reporting year, measures were undertaken across **432** commercial banks in all regions to ensure accuracy and completeness of information disclosure on loan and deposit terms to consumers, as well as for transactions conducted using bank cards in accordance with current legal requirements.

A fine totaling **542** million UZS was imposed on **16** commercial banks found to have committed violations.

As a result of regulatory measures, a system was introduced to ensure consumers receive complete information about the conditions of credit and deposit products. This initiative contributed to a decrease in the number of violations related to bank card transactions in banking institutions compared to 2022.

Also, case studies were conducted in credit institutions in the area of protecting the rights of consumers of banking services. As a result, practical assistance was provided in **6 251** cases involving the return of bank commissions totaling **8,6** billion UZS, which had been collected from clients in violation of the law and contract terms.

In the reporting year, **1 552** complaints concerning violations of financial services consumers’ rights were reviewed. Through the examination of issues raised in these complaints, assistance was provided to **112** consumers in restoring their rights and legitimate interests, resulting in a financial benefit totaling **17,1** billion UZS.

In order to support advanced and effective international practice in protecting the rights of consumers of financial services and establishing regular cooperation with regulators of developed countries in charge of this area, works has been completed on the accession of the Central Bank to **FinCoNet** organization.

Currently, based on insights from foreign countries, there is an ongoing exploration of the potential for establishing a risk-based control system in the realm of protecting consumers’ rights in financial services.

6.4. Addressing appeals from individuals and legal entities

In 2023, the Central Bank ensured addressing appeals in accordance with the requirements of the Law of the Republic of Uzbekistan “On appeals of individuals and legal entities”.

Appeals received from individuals and legal entities from all regions regarding banking issues of various contents and forms are being processed in accordance with prescribed procedures and within specified timeframes and appropriate responses are being provided.

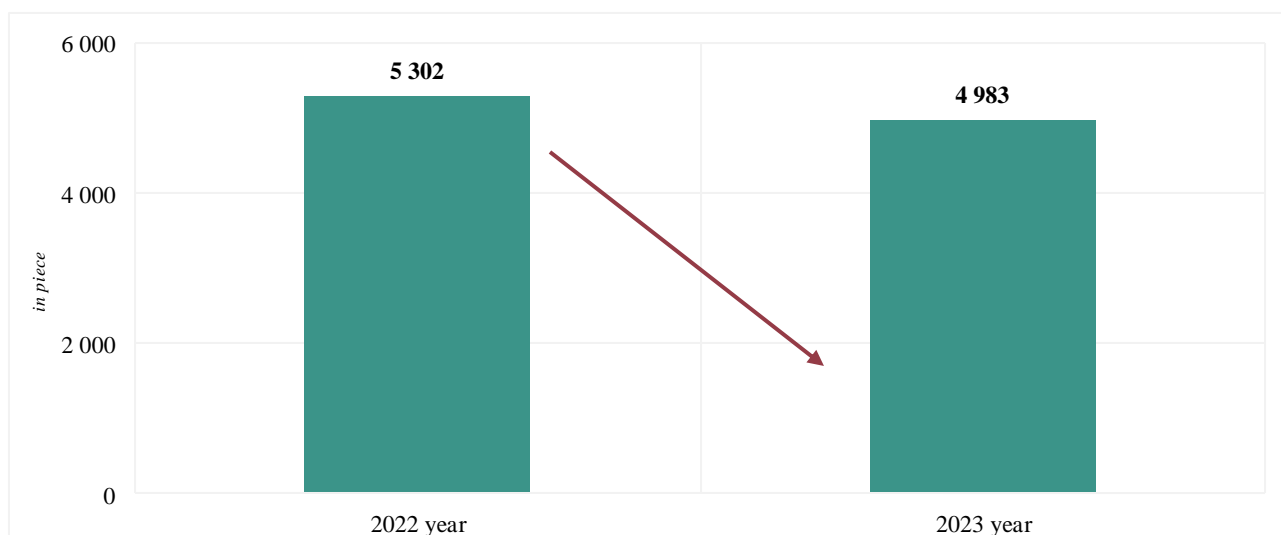
Alongside ensuring timely and high-quality consideration of applications, identification of systemic shortcomings in the provision of banking services and their prevention remains one of the priorities of the Central Bank.

Receiving and processing appeals electronically from individuals and legal entities via official website of the Central Bank, mobile application, and “Helpline”, as well as organizing on-site receptions, are becoming increasingly important for identifying and addressing existing problems.

Based on the results of the analysis of appeals from individuals and legal entities and identified systemic problems and shortcomings, requirements for the activities of credit institutions are being enhanced by introducing changes and additions to regulations.

Figure 6.4.1

Number of appeals from individuals and legal entities



Source: Central Bank data

In the reporting year, in order to address and resolve issues raised by households, management of the Central Bank organized on-site receptions in remote and densely populated areas of the Republic. During these meetings special attention was devoted to promptly resolve problems.

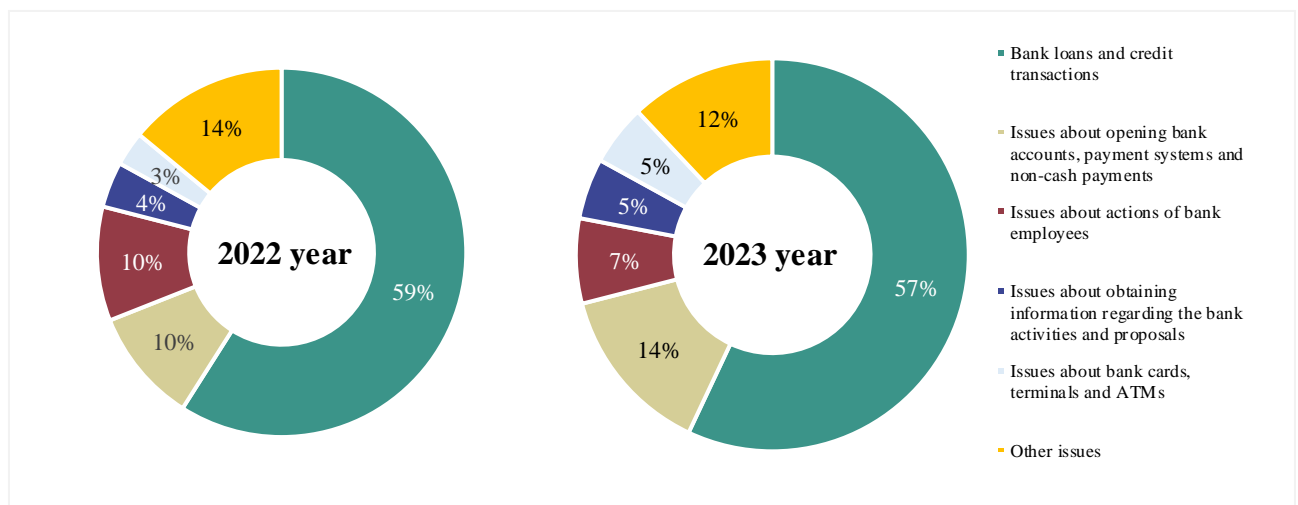
During on-site meeting of deputy chairmans of the Central Bank, 308 appeals were received from citizens and legal entities. Of these, 86% were resolved positively (*loans worth 33,4 billion UZS extended*). Additionally, appropriate explanations were provided for 14% of the appeals in accordance with the prescribed procedures.

During 2023, the Central Bank received a total of 4 983 appeals, slightly lower than 5 302 received in 2022. These appeals were categorized as follows: 21% were received through the Online reception of the President of the Republic of Uzbekistan, 52% were written appeals received by the Central Bank directly and through other ministries and organisations, 5% were received via email, and 22% were oral appeals received through “Helpline” and at personal and on-site receptions of management and responsible employees of the Central Bank.

2 176 appeals were satisfied, explanations were provided for 2 688, 110 appeals were forwarded to other relevant ministries and organisations, and 9 appeals were recognized as anonymous.

Figure 6.4.2

Topics of issues raised in appeals sent to the Central Bank



Source: Central Bank data

The topics raised in the appeals were distributed as follows: 57% related to loan issues, payment system and non-cash payments – 14%, behaviour of bank employees – 7%, obtaining information and providing proposals on banking activities – 5%, servicing bank cards, terminals, and ATMs – 5%, and 12% pertained to other issues.

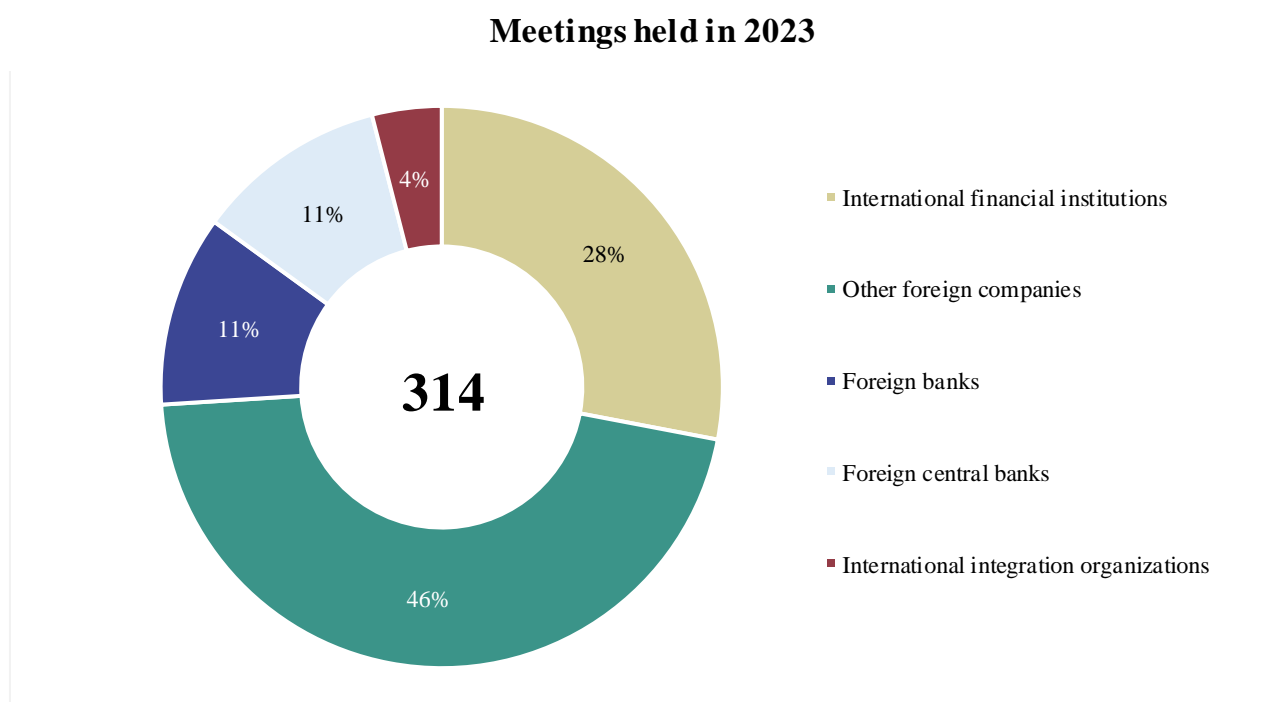
The decrease in the number of requests can be attributed to the ongoing reforms in the banking system, which aim to address issues of inconvenience and difficulties in using banking services. Additionally, implementation of lending processes based on market mechanisms contributes to reduce the number of appeals and further enhances the efficiency of lending.

VII. INTERNATIONAL RELATIONS AND COOPERATION

In 2023, works on international cooperation with foreign partners were continued to improve the priority areas of the Central Bank's activities, such as analysis of the macroeconomic situation and the banking system, banking supervision, payment systems and cybersecurity.

In the reporting year, representatives of the Central Bank participated in over **314** meetings, marking a 47% increase compared to 2022. These meetings involved various international financial institutions, foreign Central Banks, and other foreign organizations. 71% of these meetings were conducted in-person.

Figure 7.1



Source: Central Bank data

7.1. Cooperation with international financial institutions and foreign Central Banks

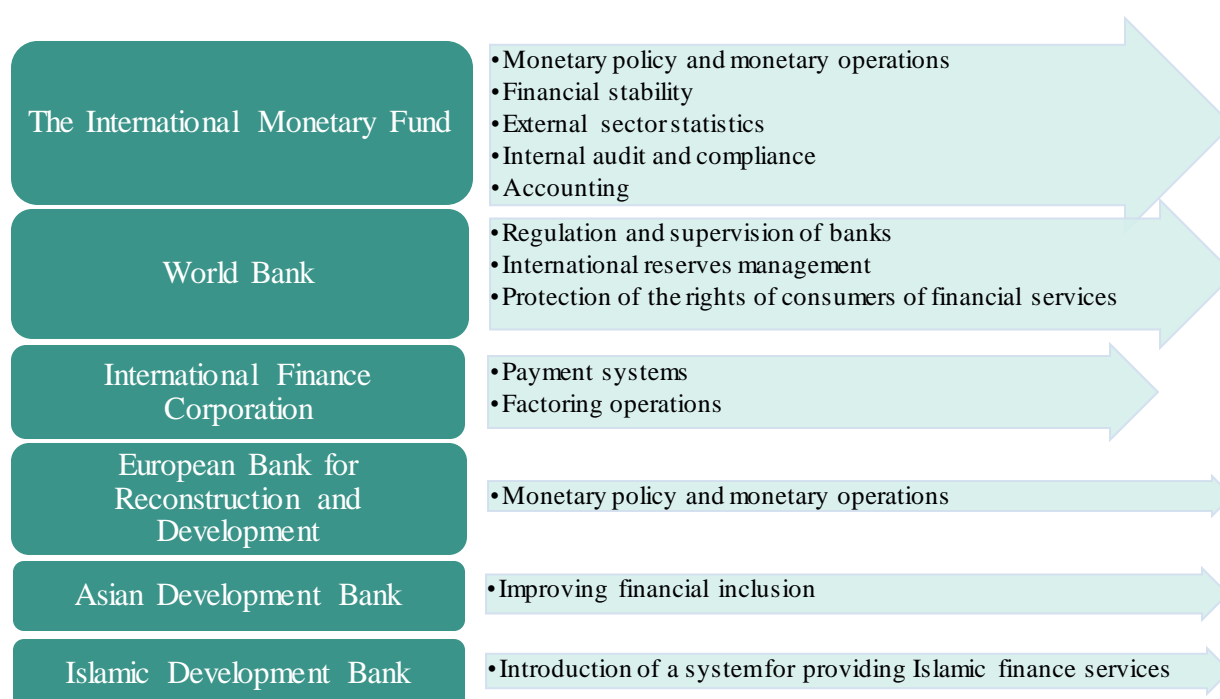
In the reporting year, the Central Bank received 22 technical assistance missions from international financial institutions (*30% increase compared to 2022*).

In particular, **6** technical assistance missions were received from the IMF in the areas of improving macroprudential and monetary policy instruments, introducing international financial reporting standards, and improving external sector statistics.

During the visit of the IMF delegation to Uzbekistan, led by Managing Director Kristalina Georgieva in July 2023, meetings were held with representatives of the Central Bank to discuss current trends in the economy.

Figure 7.1.1

Technical assistance missions from international financial institutions attracted by the Central Bank in 2023



Source: Central Bank data

In addition, a meeting was held between the Managing Director of the IMF and young employees and stipend holders of the Central Bank and the youth received answers to their questions.

Also, during the spring and annual meetings of the IMF and the World Bank, representatives of the Central Bank as part of the Government delegation organized meetings with Managing Directors of the IMF and the World Bank, as well as with representatives of a number of foreign companies and banks. Representatives of the Central Bank participated in discussions on the prospects of global economic development, including issues such as challenges in an environment of high inflation, high debt levels and tight global financial conditions.

During 2023, the Central Bank continued cooperation with the World Bank Group in a number of important areas, such as the implementation of a risk-based supervision system, management of international reserves, risk management of banks and banking groups, implementation of bank resolution mechanisms, improvement of the deposit guarantee system in banks, and received 9 technical assistance missions.

In the reporting year, cooperation with the European Bank for Reconstruction and Development was also continued and technical assistance was attracted to further improve communication of monetary policy, interbank money market and the repo market, as well as liquidity management operations.

In addition, cooperation with Asian Development Bank on protection of rights of consumers of financial services and financial literacy, with the International Finance Corporation on factoring and movable assets-based financing in Uzbekistan, as well as with Islamic Development Bank on the introduction of Islamic financing services was continued.

In 2023, 12 foreign visits of the Central Bank employees were organized in order to study the experience of the Central Banks of Georgia, Kazakhstan, Switzerland, Russia, Korea, Armenia, Portugal, Türkiye and Hungary in the areas of external sector statistics, risk-based supervision, financial control, internal audit, implementation of international accounting standards, development of payment systems and their supervision, financial stability, highly effective supervisory technologies (SupTech), protection of the rights of consumers of financial services.

Also, online events were organized to exchange experience with German Bundesbank on financial stability, and with the Central Bank of Türkiye in the areas of human resource management and communication policy.

Furthermore, the Central Bank of the Republic of Uzbekistan organized 6 joint seminars on macroeconomic modeling, monetary policy, internal audit, SupTech and compliance control with the participation of experts from the Central Banks of Switzerland, Russia and Georgia.

In 2023, 16 foreign visits were organized at the management level through participation in various international conferences in order to expand bilateral relations with regulators of Kyrgyzstan, Armenia, Kazakhstan, Russia, Türkiye, the USA, Korea and Japan. During the visits, the topics on monetary policy, financial stability, digital currency, green finance, cybersecurity and financial inclusion were discussed.

In addition, as part of the Government delegations of the Republic of Uzbekistan, the management of the Central Bank participated in meetings with regulators of Singapore, Iran, Qatar, the USA and Russia.

In 2023, new relations were established with the Central Banks of Italy and Austria, and Memorandum of understanding was signed for cooperation with the Central Bank of Mongolia.

7.2. Cooperation with international rating companies and other financial organizations

In 2023, during meetings with international rating agencies (*Fitch Ratings, Moody's Investors Service, S&P Global Ratings*), macroeconomic situation in the country, external sector statistics, directions of monetary policy and development of the banking system, financial indicators of the banking system and its trends, as well as ongoing initiatives of privatization of state-owned banks were discussed.

In turn, the results of the discussions had a positive impact on the processes of assessing sovereign rating of the Republic of Uzbekistan by these prestigious agencies.

As part of the memorandum of understanding for cooperation with “MasterCard Europe”, a joint analysis was carried out on the further expansion of the non-cash payment system in the country and roadmaps were developed to increase efficiency of initiatives in areas such as cybersecurity, development of payment infrastructure, financial inclusion, financial literacy.

During 2023, representatives of the Central Bank actively participated as members of working groups formed within the framework of interstate and international integration associations, including the process of joining to the World Trade Organization, the activities of Shanghai Cooperation Organization and Organization of Islamic Cooperation.

In particular, the management of the Central Bank took part in meetings of the working group on the entry of the Republic of Uzbekistan into the World Trade Organization, held in Geneva (Switzerland), and during negotiations with member countries of this organization, detailed explanations were given regarding banking services in accordance with current legislation.

During online meeting held with the participation of Finance Ministers and Central bank governors of Shanghai Cooperation Organization member states, the parties exchanged views on strategies for economic growth and promoting financial inclusion through the use of digital technologies.

The management of the Central Bank took part in regular meetings of intergovernmental commissions held with Pakistan, Russia and the Republic of Belarus.

With the support of Alliance for Financial Inclusion together with experts from the member countries of this organization, educational trainings (*seminars, experience exchange, webinars*) were conducted on financial inclusion, financial literacy, protection of the rights of consumers of financial services and the development of digital services.

The Central Bank staff attended AFI’s annual general meeting and Global Policy Forum in Manila, and gave a presentation on the Central Bank's activities on financial inclusion.

On April 25, 2023, Central Bank staff participated in General meeting of The Central Banks and Supervisors Network for Greening the Financial System (NGFS), where they discussed the annual activities of the community and the issue of participating countries that expressed a desire to join the community.

During the reporting period, the Central Bank established cooperation with leading companies in the field of cybersecurity of Korea, the United Arab Emirates, Singapore, China and Israel.

As part of this cooperation, exchange of experience and knowledge is being established in the development of cybersecurity in the banking system.

VIII. ACTIVITIES IN THE FIELD OF WORK WITH EMPLOYEES AND DEVELOPMENT OF QUALIFICATIONS, INTERNAL CONTROL AND RESEARCH ACTIVITIES

8.1. Organizational structure

The organizational structure of the central apparatus of the Central Bank consists of **28** departments, **4** services and **2** units, as well as **14** territorial main offices in the Republic of Karakalpakstan, regions and the city of Tashkent, and **5** subordinate organizations.

As of January 1, 2024, **2 152** employees and specialists work in the central apparatus of the Central Bank, territorial main offices in the Republic of Karakalpakstan, regions and the city of Tashkent.

8.2. Development of the system of working with employees

In 2023, the main focus was on ensuring transparency in the recruitment processes, as well as continuous improvement of staff qualifications through training.

In particular, in 2023, the council for professional qualifications and knowledge in the field of banking developed **4 types of professional activities** and posted on the website mehnat.profstandart.uz in state and Russian languages.

In order to fill existing vacancies in the Central Bank system, cooperation with leading higher education institutions are being continued, and information about vacancies is published on the website and social networks of the Central Bank.

Recruiting process is organized on the basis of open competition, which consists of the stages of submitting documents and testing the level of knowledge of foreign languages. These selection stages are conducted through **telegram-bot** in real-time and the level of knowledge of foreign languages are tested via Google Meet platform.

The interview process is conducted by an expert group consisting of experienced the Central Bank specialists based on the principles of impartiality, transparency and equal opportunity for all candidates.

The processes of organizing and conducting the competition is regularly monitored by specialists of Compliance-control and internal audit department of the Central Bank.

In 2023, 6 291 applications for employment in the central office and territorial main departments of the Central Bank were received through telegram-bot, of which 1 828 candidates were recommended for the testing stage and interviews were organized with 328 candidates who successfully passed previous stages.

As a result, **134** people were hired, in particular, **78** people in the central apparatus and **56** people in the territorial main offices.

Following recommendations of international experts in the field of HR, in order to adapt quickly to the work and develop teamwork skills, conditions were created for newly hired young employees by assigning experienced specialists.

In order to utilise human resources and properly promote their potential, a reserve composition of 97 people for 49 management positions was approved in 2023. Of which, 2 people were appointed to head of structural divisions of the central apparatus, 2 people to the position of head of territorial main offices, and 8 candidates from the reserve were transferred to high positions in the central apparatus.

Two employees in reserve received master's degrees at universities in the UK and the USA, and 1 candidate is pursuing master's at British University, 2 candidates are studying at Banking and finance academy.

In order to attract and reward talented young employees, a special competition for a **scholarship of the Central Bank** is held annually.

According to the results of the competition, **20** talented students who were studying in the areas of banking, economics, and accounting and information technology, were selected from Tashkent institute of finance, University of world economy and diplomacy, Westminster international university, Management development institute of Singapore, Inha university, Tashkent state university of economics and National university of the Republic of Uzbekistan named after Mirzo Ulugbek.

They were provided with opportunities of participating in seminars and practical events hosted by the Central Bank and daily training in structural units and a qualified mentor is assigned to each scholarship holder.

8.3. Activities on training and retraining of employees

Highly effective employees possessing knowledge and skills play a pivotal role in realizing strategic objectives of the Central Bank, such as, ensuring prices stability, stable functioning of banking system and payment systems.

In that pursuit, in 2023, special attention was paid to attracting talented young employees and expanding their opportunities to participate in educational programs organized jointly with international financial institutions.

In particular, in 2023, more than 185 employees improved their knowledge and skills in 116 training events organized by foreign Central Banks and international financial institutions in areas such as banking regulation and supervision, macroprudential policy, monetary and macroeconomic policy, green economy, financial inclusion and other areas of the Central Bank's activities.

Structural units of the Central Bank organized 55 training events and 46 training events organised jointly with foreign and local partner organizations for employees of central apparatus, territorial main offices, commercial banks, microfinance and other organizations in which more than 2 000 employees participated.

These events were organized in collaboration with international financial institutions, foreign Central Banks, and IT companies.

During 2023, 8 employees trained at Center for training of lawyers under Ministry of Justice, 3 employees trained in “IT-projects” courses, 10 employees trained on application of new Labor Code, and 2 employees improved their qualifications in Türkiye in the area of compliance - control.

In order to train and increase the number of employees with scientific and practical skills, training opportunities for young experienced employees are being expanded in master and doctoral studies in foreign and domestic institutions.

In particular, **10** employees are studying in foreign educational institutions, of which, under Erasmus Mundus joint master’s scholarship – 1, at National Graduate Institute for Policy Studies (GRIPS) – 1, at the University of Tokyo – 1, at Ritsumeikan University – 1, at Hitotsubashi University – 1, at Tsukuba University – 1, and also 4 employees are studying through “El-Yurt Umidi” Foundation for training specialists abroad and the dialogue with compatriots scholarship program at University of Sussex (UK), at University of Pennsylvania (USA), at University of South Florida (USA), as well as at University of Bonn (Germany).

In addition, two employees of the Central Bank are pursuing doctoral studies at Yokohama National University and at National Graduate Institute for Policy Studies (GRIPS).

As of January 1, 2024, **32** employees of the Central Bank completed their studies at the Academy of Public Administration under the President of the Republic of Uzbekistan, **139** employees graduated from Banking and finance academy and **89** employees completed master’s degrees in foreign higher educational institutions.

Moreover, opportunities for employees to study in prestigious online platforms, independently develop and obtain international certificates are being actively expanded.

In particular, in 2023, **25** employees of the Central Bank completed training courses aimed at increasing the level of professional knowledge on banking supervision through **FSI Connect platform of the Bank for International Settlements Institute on financial stability**.

In order to provide opportunities for Central Bank employees to obtain internationally recognized certificates, in 2023, cooperation was established with the Chartered Financial Analyst Institute, which offers a world-class financial analyst certificate.

As part of this cooperation, **16** employees of the Central Bank received the opportunity to take an exam at a discounted price, while **7** of them took part in the first stage of the exam.

166 employees of the Central Bank participated in certified training courses to improve theoretical and practical knowledge on the basics of office work in the state language at **Center for training and teaching basics of office work in the state language.**

8.4. Improving monetary and financial statistics

In 2023, the Central Bank completed works to ensure full coverage of monetary and financial statistics and launched the practice of formulating “Other financial corporations survey” and “Financial sector survey” of the Republic of Uzbekistan.

“Other financial corporations survey” was compiled based on quarterly financial statements from 2019 to 2023 of non-bank financial organizations, such as insurance and lease organizations, payment organizations and payment system operators, stock and foreign exchanges, non-bank credit organizations, as well as Fund of guarantee citizens’ deposits in banks in accordance with the IMF standards.

In this process, certain works were carried out in close cooperation with experts from Statistics Department of the IMF, and consequently, their positive conclusion was received.

Starting from the first quarter of 2024, it is planned to periodically publish “Other financial corporations survey” and “Financial sector survey” on the official website of the Central Bank, Open data portal of the Republic of Uzbekistan, as well as on “enhanced General Data Dissemination System” and “International Financial Statistics” platforms of the IMF.

In 2023, the Central Bank launched the practice of formulating “Balance Sheet Approach Matrix” of the Republic of Uzbekistan based on the IMF methodology. This analytical tool reflects the degree of interconnection between economic sectors and covers data for 2019-2023.

In order to formulate balance sheet approach matrix, data from monetary and financial statistics and external sector statistics are used and positions of financial assets and liabilities of the government, non-financial organizations and households are calculated. This matrix is used to assess imbalances in the currency composition and capital structure between economic sectors, as well as sectoral solvency.

The Central Bank continues to work on expanding monetary and financial statistics with historical data in accordance with IMF standards.

In particular, monthly indicators of “Central Bank survey”, “Other depository corporations survey”, “Depository corporations survey” and “Monetary aggregates” for 2006-2013 have been calculated and works are being carried out to improve their quality.

In the reporting year, works were continued to improve the Central Bank’s page on the Bloomberg platform, which is considered the leading information provider in the international financial market. In particular, in collaboration with Bloomberg specialists, the publishing of relevant statistical data of monetary and financial statistics and external sector statistics was organized on the Central Bank page in real time and automatically.

8.5. Analysis and research in the activities of the Central Bank

To assess the impact of economic processes emerging within changing global economy and new traditional uncertainties, it is important to conduct fundamental researches and integrate their findings extensively in decision-making processes.

For this purpose, the Central Bank has developed a dynamic stochastic general equilibrium (DSGE) model. This model facilitates not only forecasting and analysis but also modelling various economic scenarios based on the current state and it is employed in practical research.

In particular, utilizing the DSGE model, a research was conducted on the topic **“Impact of energy sector liberalization on energy supply.”** The analysis demonstrated that liberalization reforms in the energy sector would enhance production efficiency if implemented through a model involving competition between wholesale and retail markets.

It is essential for Central Banks to assess the size of shadow economy, considering its direct impact on macroeconomic indicators, government revenues, and effectiveness of monetary policy, as well as its contribution to imbalances in labor market.

The volume of shadow economy in Uzbekistan is periodically assessed and analyzed using methodologies widely adopted in international practice. Specifically, calculations for 2023 indicated that the share of shadow economy share to GDP in Uzbekistan decreased by **0,5 p.p.** compared to 2022.

Furthermore, using **“mirror statistics”** method, the volume of export-import operations of trading partner countries were compared. The volume of export from Uzbekistan was assessed in comparison with the volume of import of trading partner countries, and the main factors of discrepancies were examined.

Increasing competition between banks and development of Big Tech enterprises are initiating commercial banks to adopt new business models such as introduction of digital banking services and equity participation in non-financial service businesses.

Since these ecosystems are relatively new, few researches were conducted to examine potential risks, legal frameworks, and regulatory mechanisms associated with their activity and development.

Based of the above-mentioned, due to increasing the volume of **activity of ecosystems** providing financial and non-financial products and services to consumers, the practice of analyzing **financial ecosystems and risks that may arise in the process of their development** has been launched.

In the reporting year, a research was conducted on “**Analysis of mechanism and effectiveness of influence of financial intermediation on economic growth**” to assess the role of financial intermediation in economic growth and trends and effectiveness of indicators in financial intermediation in Uzbekistan in recent years.

According to the findings of this research, during the period of 2017-2022, financial intermediation indicators in Uzbekistan showed a relative growth tendency. Additionally, effectiveness of banking intermediation saw an upward trend in this period.

In addition, due to increasing burden of external debt and rising cost of resources, it is crucial to assess effectiveness of tax revenues and examine influencing factors on them.

In order to study effective use of internal resources and conducting a balanced tax-budget policy, to determine variance between potential and actual levels of tax revenues, an empirical research was carried out on “**Analysis of the dynamics of tax revenues and influencing factors on them**”.

According to the conclusion of this research, in our country, revenue from main taxes (income tax and VAT), as well as customs fees, formed at a low level compared to some emerging countries. It is noted that this occurs due to various privileges given by government for financial supporting economic entities

Developing countries widely use long-term, low-interest loans of international financial institutions for financial supporting the economy, conducting investment programs of the government and financing budget deficit. In order to assess the impact of these processes on inflationary pressures, a research was conducted on “**Relationship between terms of public external debt and the level of inflation**”.

According to the results of the research, the ratio of public external debt to GDP within the range of up to 30% increases inflation by an average of **7,8%**, in the range of 30-60%, – by **8,2%**, in the range of 60-90% – by **9,2%**, and exceeding 90%, – by **22,1%**.

Considering that excessive dollarization levels can lead to economic imbalances, a research was conducted to assessment **the natural level of financial dollarization for Uzbekistan**.

According to the assessment, general level of total dollarization calculated for the period of 2018-2023 averaged **24,8%**, reached **26%** by the end of 2023. During the same period, the natural dollarization level of time deposits was measured at **21,4%** and **21,6%**, respectively.

The assessment of the equilibrium real interest rate plays a crucial role in determining monetary policy position conducted by Central Banks. In the first quarter of 2023, **the equilibrium real interest rate** for the economy of Uzbekistan was **2,9%**. Meanwhile, the real interest rate was recorded at **4,3%**, indicating a positive gap of **1,4 p.p.** This gap ensured “relatively tight” monetary conditions in the economy.

Timely and precise information regarding current state of the economy is important for implementing effective monetary policy, especially during periods of economic transition. In this regard, the feasibility of **assessing Uzbekistan’s GDP dynamics** through alternative indicators, such as Google Trends data, was considered.

According to the results of the research, there is a high correlation between official and alternative statistical data in the field of industry, trade, living and dining services, transportation and storage, information and communication and other types of services, which in turn, allows to evaluate and analyze economic activity prior to the release of official statistical indicators.

Most forecasting models require data at the same frequency, but in practice there are differences in the timing and frequency (*monthly, quarterly*) of the publication of official statistics.

Based on indicators of varying periodicities, the practice of assessing GDP dynamics was implemented using the mixed-frequency MIDAS model, which enables short-term forecasting. According to data in October 2023, real GDP growth for the year 2023 was forecasted to range between 5,6% and 6,0%. The upper limit of this forecast aligns with 6,0% growth rate announced by the Statistics Agency.

Changes in the exchange rate impact price level directly through imported consumer goods and indirectly through imported raw materials, technologies, and spare parts used in domestic production. Additionally, expectations regarding future exchange rate changes can also influence price level.

A quantitative assessment of the **impact of exchange rate changes on core inflation** showed that 1% exchange rate depreciation results in a short-term increase in core inflation by 0,11 p.p. and a long-term increase by 0,17 p.p.

The results of forecasting economic indicators using ARIMA model demonstrate stability and often yield better outcomes compared to more complex structural models.

Based on ARIMA model, a study was conducted to evaluate effectiveness of short-term forecasting of core inflation, both at the aggregate level and across groups of its components. The results of the study showed that the error rate of forecasts obtained by dividing core inflation into 58 groups is better than the error rate of forecasts calculated by dividing the overall index and the overall index into three main groups.

8.6. Activities of internal audit and compliance-control

In 2023, based on the objectives of increasing efficiency of internal control system, the Central Bank carried out a number of works to improve internal audit and anti-corruption compliance-control.

In particular, in organizing internal audit activities, main attention was paid to introduction of risk management system and risk-oriented internal audit into the activities of the Central Bank based on international experience.

The risk management system includes implementation of measures for the early identification of risks (*uncertainties, problematic issues, systematic errors and shortcomings*), assessment of the likelihood of occurrence and degree of impact, as well as the reduction of these risks that may negatively affect the efficiency and continuity of business processes related to implementation of the tasks and functions of the organization.

As part of risk-oriented internal audit, effectiveness of risk reduction measures is assessed through audits, adequacy and the state of implementation are examined. If necessary, risks are reassessed and recommendations are provided for further improvement of risk management process.

So far, internal audit approach that has been used in the Central Bank has mainly been aimed at examining issues of reliability of financial reporting, integrity of assets and compliance with laws in the Central Bank.

In the reporting year, in order to accelerate activities on implementation of risk management system and risk-oriented internal audit, the Central Bank received technical assistance mission from the IMF on “Forming the foundations of risk-oriented internal audit in the Central Bank”.

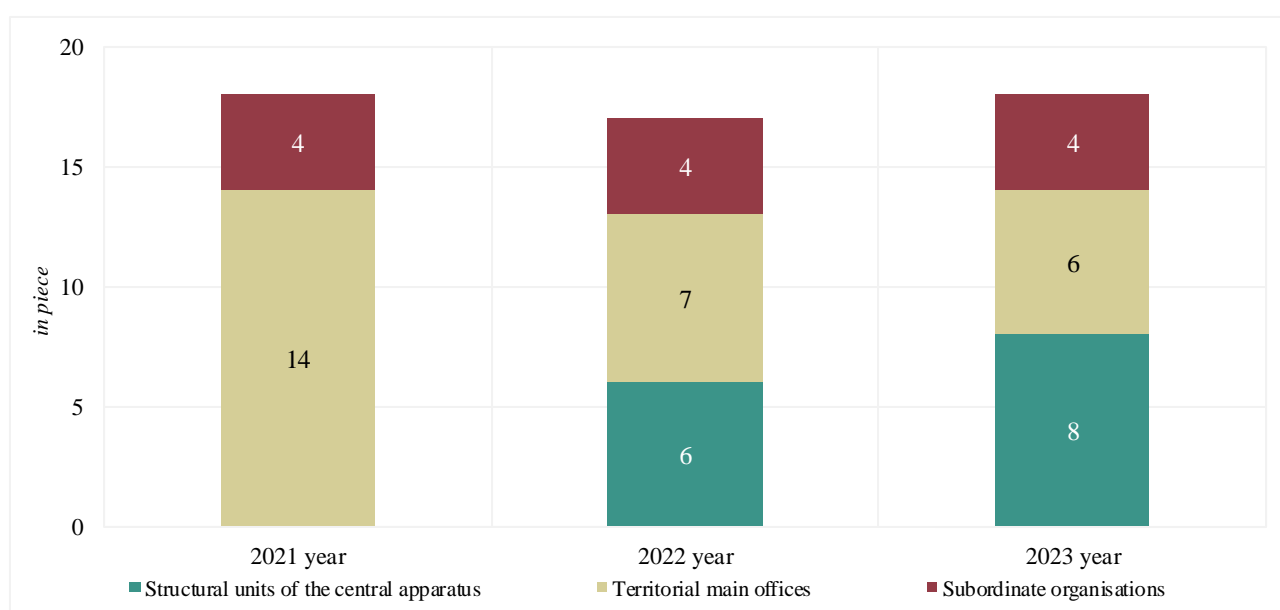
The IMF technical assistance mission reviewed the state on the implementation of risk-oriented internal audit in the Central Bank in accordance with the IMF recommendations, and also discussed risk management practices of structural divisions of the Central Bank.

In accordance with the plan for organizing internal audit in the Central Bank system for 2023, internal audits were conducted in structural units of central apparatus, territorial main offices and subordinate organizations.

In particular, in 2021 internal audit was carried out in all 14 territorial main offices and 4 subordinate organizations, then since 2022, within the framework of a 3-year audit cycle covering all audit objects in the Central Bank system, the scope of internal audit has expanded and the practice of conducting audit in the structural units of the central apparatus of the Central Bank has been introduced.

Figure 8.6.1

Dynamics of conducted internal audit in the Central Bank system in 2021-2023.



Source: Central Bank data

In turn, in 2023, internal audit was carried out in 6 territorial main offices, 4 subordinate organizations and 8 structural units of central apparatus.

The introduction of a three-year risk-oriented audit cycle in the Central Bank system serves not only to ensure the targeted focus of audit activities, but also to more efficiently use resources of the internal audit service.

During the reporting year, measures were also taken to improve **anti-corruption compliance-control** in the Central Bank system.

In particular, **corruption risks** were analyzed for all tasks of the Central Bank. A map of corruption risks and a program of measures to prevent risks have been developed and their implementation is ensured.

Annual declarations on conflicts of interest of employees of central apparatus, territorial main offices and subordinate organizations of the Central Bank were analyzed, a “**Register of conflicts of interest**” was formed and measures to prevent the occurrence of conflicts of interest were determined.

Also in 2023, a study of counterparties was carried out aimed at preventing affiliation, conflicts of interest and other corruption risks when making purchases under **182** tenders, as well as direct business contracts.

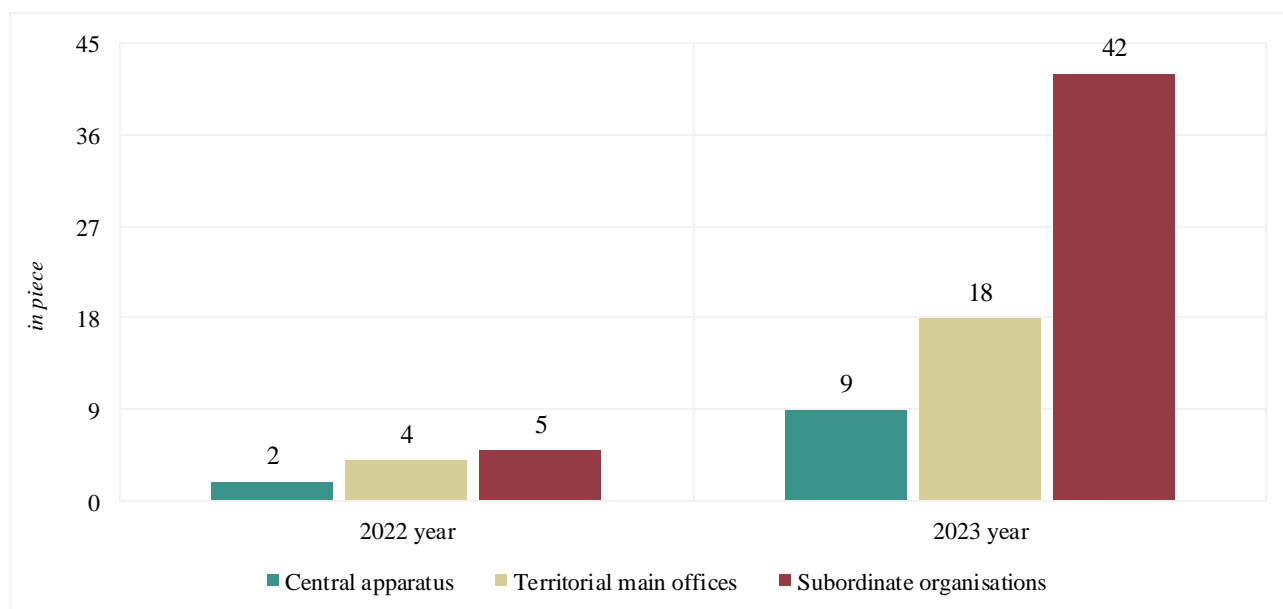
Also, during the reporting period, in hiring to the Central Bank, data of 129 candidates was studied in order to prevent corruption risks.

In order to examine candidates, main attention was paid to information about cases of conflict of interest, behavior in the previous workplace, honest and impartial performance of the duties assigned to them in their work activities, as well as commission of corruption acts.

In order to increase legal literacy of employees and develop uncompromising attitude towards corruption, about **70** educational events have been organized in the Central Bank system.

Figure 8.6.2

Number of anti-corruption educational events conducted in the Central Bank system between 2022 and 2023



Source: Central Bank data

All territorial main offices and structural units of central apparatus were provided with Instruction on the basic concepts of anti-corruption, norms and requirements of legislation and internal documents of the Central Bank and “**table-tent**”.

In accordance with the Decree of the President of the Republic of Uzbekistan dated October 22, 2021 No. PD-5263, anti-corruption examination was conducted on projects of 37 new regulatory legal acts.

Additionally, in the reporting year, experience of the National Bank of Georgia in the field of anti-corruption compliance-control was studied. Based on the experience of National Bank of Georgia, measures are being taken to improve the practice of managing conflicts of interest in the Central Bank system.

IX. APPENDICES

Table 1

Macroeconomic indicators of the Republic of Uzbekistan*
(at current prices)

Indicators	2023 year	
	volume, <i>in billion soums</i>	real growth, <i>in %</i>
Gross domestic product	1 066 569,0	6,0
Industrial output volume	665 821,9	6,0
Manufacturing of consumer goods	189 009,7	7,3
Gross agricultural output	404 648,6	3,9
Investments in fixed capital	352 064,1	22,1
Scope of construction work	149 864,1	6,7
Retail turnover	326 160,1	9,1
Services, total	470 286,5	13,7
Foreign trade turnover, <i>in million dollars</i>	62 567,4	23,9
Export, million dollars	24 426,2	23,8
Import, million dollars	38 141,2	24,0
Balance of foreign trade turnover, <i>in million dollars</i>	-13 715,0	x

* Preliminary data of Statistics Agency

Table 2

**Main indicators of socio-economic development of
major trading partner countries for 2023***
(real changes compared to previous year)

Indicators	Uzbekistan	Russia	Kazakhstan	China	Türkiye
Gross domestic product, in %	6,0	3,6	5,1	5,2	4,5
Volume of industrial production, in %	6,0	7,0	4,2	4,2	0,8
Volume of agricultural products, in %	4,1	0,1	-7,7	4,2	-0,2
Inflation, in %	8,8	7,4	9,8	-0,3	64,8
Foreign trade turnover, <i>in billion dollars</i>	62,6	710,2	139,8	5 936,8	617,6
Export, <i>in billion dollars</i>	24,4	425,1	78,7	3 380,0	255,8
Import, <i>in billion dollars</i>	38,1	285,1	61,2	2 556,8	361,8

* Based on data from Statistics Agency

Table 3

**Information on export-import operations carried out with the main trading partner
countries of the Republic of Uzbekistan for 2023***

Countries	Export		Import		Foreign trade turnover	
	<i>in million dollars</i>	share, in %	<i>in million dollars</i>	share, in %	<i>in million dollars</i>	share, in %
Total	24 426,2	100,0	38 141,2	100,0	62 567,4	100,0
<i>including:</i>						
China	2 461,8	10,1	11 260,1	29,5	13 722,0	21,9
Russia	3 307,6	13,5	6 576,1	17,2	9 883,8	15,8
Kazakhstan	1 372,5	5,6	3 026,4	7,9	4 398,9	7,0
Türkiye	1 248,5	5,1	1 851,2	4,9	3 099,7	5,0
Korea	40,4	0,2	2 302,9	6,0	2 343,2	3,7
Turkmenistan	171,2	0,7	923,2	2,4	1 094,4	1,7
Germany	75,8	0,3	978,4	2,6	1 054,2	1,7
France	392,1	1,6	592,6	1,6	984,7	1,6
Kyrgyzstan	631,5	2,6	321,9	0,8	953,4	1,5
Afganistan	856,7	3,5	10,3	0,0	867,0	1,4
Tajikistan	605,0	2,5	151,8	0,4	756,8	1,2
India	108,0	0,4	648,5	1,7	756,6	1,2
USA	155,4	0,6	501,9	1,3	657,3	1,1
Brasil	4,4	0,0	652,3	1,7	656,6	1,0
UAE	261,7	1,1	364,2	1,0	626,0	1,0

* Based on data from Statistics Agency

Table 4

**Number of structural divisions of credit institutions of
the Republic of Uzbekistan**

	01.01.2023 y.	01.01.2024 y.
1. Credit organisations, total*	199	204
<i>including:</i>		
Commercial banks, of which:	32	35
Banks with State ownership	12	10
Other banks	20	25
Non-bank credit organizations, of which:	167	169
Microcredit organizations	85	84
Pawnshops	81	84
Mortgage refinancing company	1	1
2. Branches of commercial banks, total	832	696
3. Banking service centers (service offices and mini-banks)	1 543	1 816
4. 24/7 Self-service points	2 974	3 723

* There are no branches of commercial banks and non-bank credit organizations located abroad

Table 5

Main performance indicators of commercial banks of the Republic of Uzbekistan

(as of January 1, 2024)

in billion soums

Banks	Assets		Loans		Capital		Deposits	
	sum	share, in %	sum	share, in %	sum	share, in %	sum	share, in %
Total	652 157,1	100,0	471 405,5	100,0	97 079,2	100,0	241 686,6	100,0
Banks with State ownership	441 777,2	67,7	333 298,1	70,7	63 239,3	65,1	124 357,7	51,5
Other banks	210 379,9	32,3	138 107,4	29,3	33 839,8	34,9	117 328,9	48,5

Table 6

Dynamics of main performance indicators of commercial banks of the Republic of Uzbekistan

in billion soums

Indicators	01.01.2023 y.			01.01.2024 y.			Nominal growth (decline), <i>in %</i>	Real growth (excluding devaluation effect), <i>in %</i>
	total	of which, in foreign currency	share, <i>in %</i>	total	of which, in foreign currency	share, <i>in %</i>		
Assets	556 746,3	264 550,7	47,5	652 157,1	291 790,8	44,7	17,1	12,4
Outstanding loans	390 048,9	185 118,3	47,5	471 405,5	212 030,5	45,0	20,9	16,0
Deposits	216 737,5	84 942,7	39,2	241 686,6	72 170,9	29,9	11,5	8,5
Capital	79 565,4	359,2	0,5	97 079,2	394,8	0,4	22,0	22,0

Table 7

Relative indicators of the banking system of the Republic of Uzbekistan

in billion soums

Indicators	01.01.2023 y.			01.01.2024 y.		
	Total	including:		Total	including:	
		banks with State ownership	other banks		banks with State ownership	other banks
Ratio of assets to liabilities, in %	116,7	116,6	117,0	117,5	116,7	119,2
Assets	556 746,3	435 135,6	121 610,7	652 157,1	441 777,2	210 379,9
Liability	477 180,8	373 216,4	103 964,4	555 077,9	378 537,9	176 540,1
Ratio of loans to deposits, in %	180,0	239,6	80,5	195,0	268,0	117,7
Assets	390 048,9	324 680,8	65 368,2	471 405,5	333 298,1	138 107,4
Liability	216 737,5	135 534,4	81 203,1	241 686,6	124 357,7	117 328,9

Table 8

Categorization of commercial banks of the Republic of Uzbekistan in terms of capital size

Indicators	Total		of which:													
			up to 100 billion soum		from 100 to 200 billion soum		from 200 to 350 billion soum		from 350 to 500 billion soum		from 500 billion to 1 trillion soum		from 1 to 2 trillion soum		2 trillion and above	
	number of banks	sum, in billion soum	number of banks	share, in %	number of banks	share, in %	number of banks	share, in %	number of banks	share, in %	number of banks	share, in %	number of banks	share, in %	number of banks	share, in %
as of January 1, 2023																
Total capital	31	79 565,4	1,0	0,1	4	0,7	3	1,2	2	1,0	5	4,5	5	10,4	11	82,1
including, authorized capital	31	59 856,7	1,0	0,1	6	1,1	4	1,9	4	2,6	5	5,7	4	9,4	7	79,2
as of January 1, 2024																
Total capital	35	97 079,2			4	0,7	5	1,3	4	1,9	2	1,5	6	8,1	14	86,5
including, authorized capital	35	68 643,0			1	0,1	10	3,4	6	3,4	4	3,3	7	13,8	7	75,9

Table 9

Main performance indicators of banks of the Republic of Uzbekistan, grouped in terms of asset size

(as of January 1, 2024)

in billion soum

Indicators	Total		Categorization of commercial banks, ranked in terms of asset size							
	number of banks	sum	up to 3 trillion soum		from 3 to 10 trillion soum		from 10 to 30 trillion soum		30 trillion soum and above	
			number of banks	sum	number of banks	sum	number of banks	sum	number of banks	sum
Assets										
Assets	35	652 157,1	13	12 524,1	8	57 595,2	7	129 079,5	7	452 958,3
Loans	35	471 405,5	13	4 481,0	8	33 852,4	7	94 429,0	7	338 643,2
Loans to individuals	35	148 621,4	13	555,5	8	18 373,2	7	34 219,2	7	95 473,5
Loans to legal entities	35	322 784,1	13	3 925,5	8	15 479,1	7	60 209,7	7	243 169,7
Short-term loans	35	61 195,4	13	1 541,3	8	5 205,3	7	11 764,1	7	42 684,6
Long-term loans	35	410 210,2	13	2 939,6	8	28 647,1	7	82 664,8	7	295 958,6
Loans in national currency	35	259 369,9	13	3 116,0	8	24 635,0	7	61 035,4	7	170 583,4
Loans in foreign currency	35	212 035,6	13	1 364,9	8	9 217,3	7	33 393,6	7	168 059,8
Equity and financial results										
Total capital	35	97 079,2	13	3 789,3	8	9 648,4	7	20 411,7	7	63 229,8
Capital adequacy ratio, in %	35	17,5	13	32,7	8	18,6	7	15,9	7	17,5
Net Profit	35	12 380,0	13	266,0	8	2 396,0	7	3 491,1	7	6 226,9
Return on assets, in %	35	2,6	13	3,5	8	5,7	7	3,6	7	1,8
Return on equity, in %	35	14,2	13	9,5	8	29,2	7	19,0	7	10,8
Liabilities										
Savings of individuals	35	86 344,6	13	2 938,9	8	15 506,3	7	18 559,2	7	49 340,2
Deposits of legal entities	35	155 342,0	13	3 900,8	8	22 329,2	7	35 940,2	7	93 171,9

Table 10

Financial Soundness Indicators of banking system of the Republic of Uzbekistan

in billion soum

Indicators	December, 2022	December, 2023
Regulatory capital to risk-weighted assets, in %	17,8	17,5
Total regulatory capital	83 413,0	105 914,5
Risk-weighted assets	467 999,7	603 944,6
Tier 1 capital to risk-weighted assets, in %	14,5	14,1
Tier 1 capital	67 793,5	84 910,8
Risk-weighted assets	467 999,7	603 944,6
Nonperforming loans net of provisions to capital, in %	9,0	9,9
Nonperforming loans net of provisions	7 466,8	10 515,5
Total regulatory capital	83 413,0	105 914,5
Nonperforming loans to total gross loans, in %	3,5	3,5
Nonperforming loans	13 992,4	16 621,4
Total gross loans	396 130,4	481 158,3
Return on assets, in %	2,5	2,6
Net income before taxes	12 579,5	15 155,2
Total assets (on average for the period)	497 363,1	593 184,7
Return on equity	13,3	14,2
Net income after taxes	9 993,4	12 380,0
Capital (on average for the period)	74 890,2	86 923,4
Interest margin to gross income, in %	42,1	40,8
Interest margin	24 161,7	28 995,8
Gross income	57 343,9	71 049,6
Noninterest expenses to gross income, in %	46,5	46,2
Noninterest expenses	26 688,4	32 836,1
Gross income	57 343,9	71 049,6
Liquid assets to total assets, in %	21,5	16,2
Liquid assets	119 709,5	105 421,1
Total assets	556 746,3	652 157,1
Liquid assets to short-term liabilities, in %	47,3	37,1
Liquid assets	119 709,5	105 421,1
Short-term liabilities	253 038,6	283 846,0
Tier 1 capital to assets, in %	12,2	13,0
Tier 1 capital	67 793,5	84 910,8
Total assets	556 746,3	652 157,1

Table 12

Profitability indicators of banking sector of the Republic of Uzbekistan

in billion soum

Income and expense of banking sector	01.01.2023 y.	01.01.2024 y.
Interest income	61 727,8	86 679,1
Interest expense	37 566,1	57 683,3
Interest margin	24 161,7	28 995,8
Non-interest income	33 182,3	42 053,7
Non-interest expense	11 811,9	13 272,8
Operating expense	14 876,5	19 563,3
Non-interest income (loss)	6 493,9	9 217,6
Allowance for probable loan and leases losses	13 862,7	18 413,1
Valuation of non-credit losses	4 213,4	4 645,1
Net profit (Loss) before Tax	12 579,5	15 155,2
Expense regarding income tax	2 587,2	2 775,2
Net profit (loss)	9 993,4	12 380,0

Profitability indicators of banking sector	2022 year	2023 year
Return on assets (ROA)	2,5	2,6
Return on equity (ROE)	13,3	14,2
Ratio of net interest income to total assets	4,3	4,4
Ratio of net interest income from loans to total loans	6,2	6,2
Ratio of net interest income to total liabilities	5,1	5,2
Ratio of net interest margin to total assets	4,9	4,9

Table 13

Capital adequacy indicators of the banking system of the Republic of Uzbekistan

Indicators	01.01.2023 y.		01.01.2024 y.	
	<i>billion soum</i>	share, in %	<i>billion soum</i>	share, in %
Regulatory Tier I capital	67 793,5	81,3	84 910,8	80,2
Main capital stock	67 598,1	81,0	84 865,9	80,1
Capital surplus	195,4	0,2	44,9	0,0
Regulatory Tier II capital	15 619,6	18,7	21 003,7	19,8
Total regulatory capital	83 413,0	100,0	105 914,5	100,0
<i>Capital adequacy ratio, in %</i>	<i>17,8</i>		<i>17,5</i>	
<i>Tier I capital adequacy ratio, in %</i>	<i>14,5</i>		<i>14,1</i>	

Table 14

Liquidity indicators of the banking system of the Republic of Uzbekistan

Indicators	01.01.2023 y.	01.01.2024 y.
Ratio of high liquid assets to total assets, in %	19,4	14,9
<i>in national currency, in %</i>	18,7	13,8
<i>in foreign currency, in %</i>	20,2	17,3
Liquidity coverage ratio, in % (minimum requirement - 100%)	211,6	164,8
<i>in national currency, in %</i>	216,8	157,0
<i>in foreign currency, in %</i>	202,2	167,9
Net stable funding ratio, in % (minimum requirement - 100%)	115,6	111,8
<i>in national currency, in %</i>	117,4	111,8
<i>in foreign currency, in %</i>	113,4	111,9
Immediate liquidity ratio, in % (minimum requirement - 25%)	110,1	87,4

Table 15

Outstanding loans of commercial banks of the Republic of Uzbekistan by industry

Indicators	01.01.2023 y.		01.01.2024 y.		Compared to last year, in %
	<i>in billion soum</i>	share, in %	<i>in billion soum</i>	share, in %	
	Total loans	390 048,9	100,0	471 405,5	
Industry	126 646,6	36,0	140 152,0	29,7	10,7
Agriculture	42 096,4	10,7	47 255,0	10,0	12,3
Construction	10 399,7	2,8	12 274,7	2,6	18,0
Trade and services	28 910,6	8,4	32 515,5	6,9	12,5
Transport and communication	29 672,6	8,8	34 341,9	7,3	15,7
Development of material and technical support	3 856,1	1,2	4 067,0	0,9	5,5
Individuals	100 948,7	21,3	148 621,4	31,5	47,2
Other sectors	47 518,1	10,0	52 178,0	11,1	9,8

Table 16

**Classification of deposits and certificates of deposit
commercial banks of the Republic of Uzbekistan**

in billion soum

Date	Total	Terms				
		Demand deposits	from 1 to 30 days	from 31 to 180 days	from 181 to 365 days	Over 1 year
01.01.2023 y.	216 737,5	92 552,6	4 463,0	25 587,5	26 854,6	67 279,9
<i>share, in %</i>	100,0	42,7	2,1	11,8	12,4	31,0
01.01.2024 y.	241 686,6	85 197,6	6 300,7	30 028,0	34 951,7	85 208,6
<i>share, in %</i>	100,0	35,3	2,6	12,4	14,5	35,3

Table 17

Monetary aggregates

Indicators	01.01.2023 y.		01.01.2024 y.		Compared to last year, in %
	<i>in billion soum</i>	share, in %	<i>in billion soum</i>	share, in %	
Broad money (M2), total	189 085,1	100,0	212 086,1	100,0	12,2
<i>including:</i>					
currency in circulation (M0)	42 206,2	22,3	45 607,7	21,5	8,1
non-cash funds	146 878,9	77,7	166 478,4	78,5	13,3
<i>including:</i>					
in national currency	96 625,9	51,1	118 820,7	56,0	23,0
in foreign currency	50 253,0	26,6	47 657,7	22,5	-5,2

Table 18

Reserve money and its components

Indicators	01.01.2022 y.		01.01.2023 y.		Compared to last year, in %
	<i>in billion soum</i>	share, in %	<i>in billion soum</i>	share, in %	
Reserve money, total	78 985,5	100,0	82 875,5	100,0	4,9
<i>including:</i>					
cash outside Central bank	48 842,9	61,8	54 628,3	65,9	11,8
deposits in correspondent bank accounts	27 276,1	34,5	25 054,5	30,2	-8,1
required reserves of banks	2 638,0	3,3	2 843,5	3,4	7,8
deposits of Central bank customers	228,5	0,3	349,2	0,4	52,8