INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/145

REPUBLIC OF UZBEKISTAN

FINANCIAL SECTOR ASSESSMENT PROGRAM

FINANCIAL SYSTEM STABILITY ASSESSMENT

June 2025

This paper on the Republic of Uzbekistan was prepared by a staff team of the International Monetary Fund in the context of an IMF Financial Sector Assessment Program. It is based on the information available at the time it was completed in May 2025.

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International Monetary Fund
Washington, D.C.

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REPUBLIC OF UZBEKISTAN

May 27, 2025

FINANCIAL SYSTEM STABILITY ASSESSMENT

KEY ISSUES

Context: This inaugural Financial Sector Assessment Program (FSAP) in Uzbekistan took place against the backdrop of a strong and resilient economy undergoing wide-ranging reforms. The main objectives of the authorities' strategy for developing the banking sector are to significantly increase the role of private banks and improve the operations of the remaining state-owned commercial banks.

Findings: The FSAP noted the solid progress achieved by the authorities in recent years in strengthening institutional and operational frameworks for sustaining financial stability. However, further legal and regulatory reforms are needed, and robust implementation is key. Despite privatization efforts, the state remains the dominant player in the financial sector, including through ownership and directed and preferential lending programs. The banking sector, which has experienced rapid growth and remains the dominant force in the financial system, demonstrates positive performance. However, stress tests indicate vulnerability to credit risk, which is amplified by the under-reporting of nonperforming loans. The capital adequacy ratio of many banks, especially state-owned banks, would fall below the required minimum under the adverse stress testing scenario resulting in significant recapitalization costs.

Policy advice: The authorities should continue efforts to reduce the role of the state in the financial sector and phase out directed and preferential lending. Systemic risk analysis and macroprudential policymaking should be improved with regards to institutional arrangements, policy instruments, stress testing, and public communication. Further enhancements to the legislative and regulatory frameworks for banks are needed, especially addressing the misalignments in asset classification, strengthening capital requirements, and implementing consolidated supervision. The ongoing reforms of the financial safety net and crisis preparedness framework should be completed, including by broadening the resolution powers of the Central Bank of Uzbekistan (CBU) and setting up robust arrangements for emergency liquidity assistance.

Approved By
May Khamis
Prepared By
The Uzbekistan FSAP team

This report is based on the work of the Financial Sector Assessment Program (FSAP) missions that visited Uzbekistan in November 2024 and February–March 2025. The FSAP findings were discussed with the authorities during the Article IV Consultation mission in April 2025.

The FSAP team was led by Vassili Prokopenko (IMF) and Gunhild Berg (World Bank, WB), and included deputy mission chiefs Piyabha Kongsamut (IMF) and Jane Hwang (WB); Etibar Jafarov, Kathleen Kao, Vasilika Kota, Tobias Lindqvist, Meryem Rhouzlane, and Sergio Sola (all IMF) and Erika Balaikiene (IMF external expert); Zsolt Bango, Ezio Caruso, Fernando Dancausa, Michael Fuchs, Karol Karpinski, Danita Pattemore, Kiyotaka Tanaka, Alena Zielinski (all WB). Zoltan Jakab, Ruy Lama, Mátyás Farkas (all MCM) and Sarvar Ahmedov (MCD) provided technical support. Beto Habe and Natalia Naryshkina (both MCM) provided administrative assistance.

The mission met with CBU Governor Ishmetov, former CBU Governor Nurmuratov, deputy Minister of Economy and Finance Norkulov, advisor to the Minister of Economy and Finance Karshibaev, and other senior officials and representatives from the CBU, the Ministry of Economy and Finance (MoEF), National Agency of Perspective Projects (NAPP), Deposit Guarantee Agency (DGA), Ministry of Justice, Ministry of Employment and Poverty Reduction, Ministry of Digital Technologies, Agency for Managing State Assets, Entrepreneurship Development Fund, Mortgage Refinance Company of Uzbekistan, Uzbekistan Fund for Reconstruction and Development, Stock Exchanges, and various private sector representatives.

FSAPs assess the stability of the financial system as a whole and not that of individual institutions. They are intended to help countries identify key sources of systemic risk in the financial sector and implement policies to enhance its resilience to shocks and contagion. Certain categories of risk affecting financial institutions, such as operational or legal risk, or risk related to fraud, are not covered in FSAPs.

This report was prepared by Vassili Prokopenko and Piyabha Kongsamut, with contributions from FSAP team members.

CONTENTS

TABLES

ANNEXES

Glossary

AML/CFT	Anti-Money Laundering/Combatting the Financing of Terrorism
BRLL	Bank Resolution and Liquidation Law
CAR	Capital Adequacy Ratio
CBU	Central Bank of Uzbekistan
DGA	Deposit Guarantee Agency
D-SIB	Domestic Systemically Important Bank
DSTI	Debt Service-to-Income
EAG	Eurasian group on combatting money laundering and financing of terrorism
ELA	Emergency Liquidity Assistance
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FX	Foreign Exchange
IFRS	International Financial Reporting Standard
IMF	International Monetary Fund
LCBU	Central Bank Law
LCR	Liquidity Coverage Ratio
LTV	Loan To Value
ML	Money Laundering
MoEF	Ministry of Economy and Finance
MSME	Micro, Small and Medium Enterprises
NAPP	National Agency for Perspective Projects
NBFI	Nonbank Financial Institution
NFC	Non-financial corporation
NPL	Nonperforming Loan
NSFR	Net Stable Funding Ratio
PFMI	Principles for Financial Market Infrastructures
SOCB	State-Owned Commercial Bank
SOE	State-owned Enterprise
TF	Terrorism Financing
WB	World Bank

EXECUTIVE SUMMARY

Uzbekistan's financial system has been undergoing significant changes since 2017, as part of broader economic reforms. New laws on the Central Bank of Uzbekistan (LCBU) and banking were adopted in 2019, and the government's 2020–25 banking sector strategy aimed to increase the role of private banks and reform the state-owned commercial banks (SOCBs), including by shifting their lending to market terms, strengthening risk management, and improving corporate governance. The authorities also encouraged the growth of nonbank financial institutions (NBFIs).

Despite reforms, the state remains the dominant player in the financial system, which leads to inefficiencies, elevated credit risk, and high fiscal costs. The financial sector remains dominated by the state both in terms of ownership and through directed and preferential lending programs. These programs undermine the banking sector's ability to allocate resources effectively and result in credit risk buildup. This has significant fiscal implications as SOCBs have required periodic recapitalization using public funds.

Further reducing the role of the state and ensuring that remaining state-owned institutions and government programs are market-enabling should be a priority. The authorities should expedite privatization efforts following international best practices, while the remaining SOCBs should complete corporate governance reforms, improve credit risk management, operate on a level playing field with the private sector, and focus on the areas where they can provide additionality. Directed and preferential lending programs should be gradually phased out.

Bank performance indicators are positive although stress tests conducted by the FSAP noted vulnerability to credit risk, which is amplified by the under-reporting of nonperforming loans (NPLs). Reported bank capitalization, profitability, and liquidity are positive, and the NPL ratios are moderate. However, the capital adequacy ratio (CAR) of many banks, especially SOCBs, would drop significantly below the required minimum under the adverse macroeconomic stress test scenario. The resulting recapitalization needs may be substantial. Moreover, the capital shortfall under stress tests would be amplified by adjusting the reported CAR for regulatory gaps, including the under-reporting of NPLs. Banks' exposure to currency-induced credit risk appears also significant, given the high share of unhedged corporate lending. Vulnerability to liquidity shocks appears contained, although high depositor concentration may create challenges in several banks.

Efforts to improve the macroprudential policy framework should continue. Financial stability is a shared objective between the CBU and the government, and the planned establishment of a Financial Stability Board (FSB) should enhance inter-agency cooperation. The CBU has developed a good framework for analyzing systemic risk but is facing some data gaps. The macroprudential toolkit could be bolstered by introducing bank capital buffers and strengthening the borrower-based measures. The CBU's public communication on systemic financial sector issues could also be enhanced.

Despite enhancements, the regulatory and supervisory frameworks for banks need further strengthening and robust implementation. Many banking regulations were adopted in recent years, resulting in improvements in banks' corporate governance and risk management, and the CBU also adopted guidelines on risk-based supervision. Nevertheless, further legal and regulatory reforms are needed. It would be particularly important to safeguard CBU's operational independence, improve supervisory reporting, strengthen capital requirements, align asset classification with international standards, strengthen on-site inspections, implement consolidated supervision, and enhance the cooperation between the CBU and the regulator of NBFIs, the National Agency for Perspective Projects (NAPP).

The anti-money laundering and combatting the financing of terrorism (AML/CFT) regime is largely effective, and efforts to address remaining weaknesses should continue. Assessed in 2022 by the Eurasian Group on Combatting Money Laundering and Financing of Terrorism (EAG), the AML/CFT regime was found to be largely effective. Further strengthening the AML/CFT regime should continue, including through imposition of sanctions for legal persons, greater transparency of beneficial ownership, and tracking and responding to emerging risks related to virtual assets.

The crisis management framework should be supported by further alignment with international best practices. The planned establishment of the FSB should enhance contingency planning. The CBU should issue guidelines for recovery planning, establish a supervisory framework for the validation of such plans and, in due course, extend the perimeter beyond domestic systemically important banks (D-SIBs). The resolution regime should be strengthened by enacting the Bank Resolution and Liquidation Law (BRLL), establishing a resolution function within the CBU, and phasing in resolution planning and resolvability assessment. Operationalizing the deposit insurance scheme and the arrangements for emergency liquidity assistance (ELA) are essential.

The World Bank (WB) made recommendations on financial sector development during the FSAP. The workstreams covered by the WB included (i) role of the state; (ii) development of NBFIs and markets; (iii) NPL resolution and management; (iv) payment system oversight; and (v) access to finance.

Table 1. Uzbekistan: Key FSAP Recommendations

	Recommendation	Agency	Priority	Timing[1]
	Systemic risk analysis and stress testing			
1	Augment solvency stress tests by adjusting the data to address regulatory gaps (¶16)	CBU	M	I
2	Conduct stress tests for currency induced credit risk for corporate lending (¶16)	CBU	H	ST
3	Complement existing liquidity stress tests with depositor concentration analysis (¶17)	CBU	M	ST
	Macroprudential framework and policies			
4	Constitute the Financial Stability Board as an interagency body for coordination, with crisis prevention separated from crisis management (¶19)	MoEF, CBU, NAPP, DGA	H	ST
5	Introduce bank capital buffers, and strengthen and broaden the scope of borrower-based measures, and improve liquidity requirements to better account for existing risks (¶20)	CBU	M	MT
6	Improve communication on systemic risk (¶22)	CBU	H	ST
	Banking regulation and supervision			
7	Safeguard CBU's operational independence (¶23)	CBU	H	I
8	Enhance the evaluation of banks' risk profiles and internal controls during off-site supervision and on-site inspections, and improve supervisory reporting (¶24, 26)	CBU	H	MT
9	Accelerate the implementation of consolidated supervision (¶25)	CBU, NAPP	H	ST
10	Ensure accurate asset classification (¶28)	CBU	H	I
	Bank resolution, crisis management and financial safety net			
11	Adopt guidelines for recovery planning and establish a supervisory framework for validation of recovery plan; define an early warning framework for the activation of supervisory measures (¶34-35)	CBU	H	MT
12	Establish a fully-fledged resolution regime by (i) enacting the BRLL (ST), harmonizing the legal powers provided in law for bank resolution and liquidation and (ii) operationalizing the framework (MT)(¶35-36)	CBU	H	ST, MT
13	Operationalize the new deposit insurance framework (¶37)	MoEF, CBU, DGA	M	MT
14	Complete the ELA arrangements by developing the collateral framework and clarifying the potential use of government guarantees (¶38)	CBU	M	ST
	Developmental Issues			
15	Expedite privatization of SOCBs (¶39)	MoEF	H	MT
16	Gradually phase out directed and preferential lending, improve transparency of such lending, and address its systemic risks through stringent capital requirements. (¶40)	MoEF	H	MT
17	Strengthen NAPP's capacity and enforcement powers in capital markets and insurance supervision (¶41)	Pres. Office, NAPP	H	ST
18	Develop insurance specific regulations on corporate governance, internal controls, consumer protection, conduct of business and risk-based capital and supervision (¶42)	NAPP	H	MT
19	Strengthen and expand supervision to all nonbank credit providers and ensure microfinance banks are subject to adequate oversight (¶43)	CBU	H	ST
20	Finalize and operationalize the payment systems oversight framework and expedite the PFMI self-assessment of the most important systems (¶44)	CBU, MoEF	H	ST
	Financial Integrity			
21	Strengthen the AML/CFT regime, including through imposition of sanctions for legal persons, greater transparency of beneficial ownership, and tracking and responding to emerging risks related to virtual assets (¶31)	CBU	M	MT

[1] I: Immediately; ST: short term= less than 1 year; MT: medium term= 1–5 years

CONTEXT

1. **Since 2017, Uzbekistan has been undertaking major economic reforms.** These included exchange rate unification, price liberalization, privatizations, enhanced business environment, and greater openness to trade and foreign investments. The reforms were underpinned by the modernization of the legal framework, including the adoption of new laws on the central bank and banking. A banking sector reform strategy for 2020–25 aimed to significantly increase the role of private banks and improve the operations of the remaining SOCBs. The authorities regard financial sector development as an essential element of a successful transition to a market-based economy.

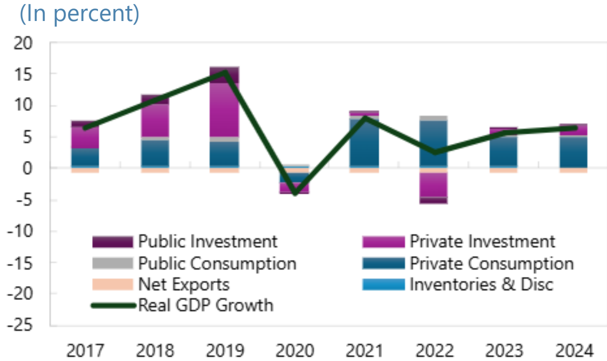
2. **The FSAP took place against the backdrop of a strong and resilient economy.** Despite sizable external shocks, including the COVID-19 pandemic and the conflict in Ukraine, the annual average GDP growth was 5.7 percent during 2018–23 (Table 2), supported by ambitious structural reforms, large inflows of capital and remittances, and favorable terms of trade. Strong growth continued in 2024, driven by construction, industry, and services (Figure 1). This growth has been accompanied by robust job creation, strong wage growth, and declining poverty. Inflationary pressures remain strong, while the nominal exchange rate has gradually depreciated. The economic outlook is broadly positive despite rising external uncertainty from the recent global trade tensions, which could affect Uzbekistan through weaker external demand, volatile commodity prices, and financial flows. On the impact of increased uncertainty, the downside risks to exports are mitigated by benefits from high gold prices and lower energy prices.

Figure 1. Uzbekistan: Macroeconomic Setting

GDP growth has been resilient, recently driven by strong investment and private consumption.

Contributions to Real GDP Growth

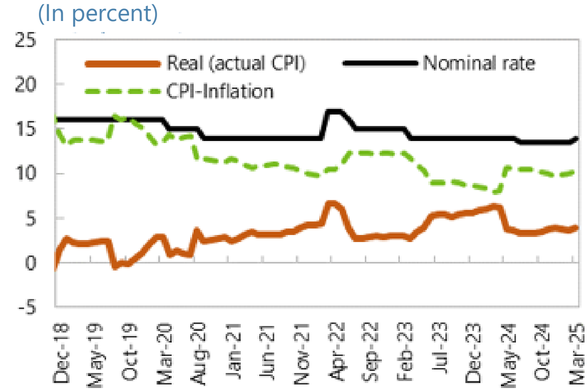
(In percent)



Energy price reform in May 2024 contributed to inflation; the CBU raised the monetary policy rate in March 2025.

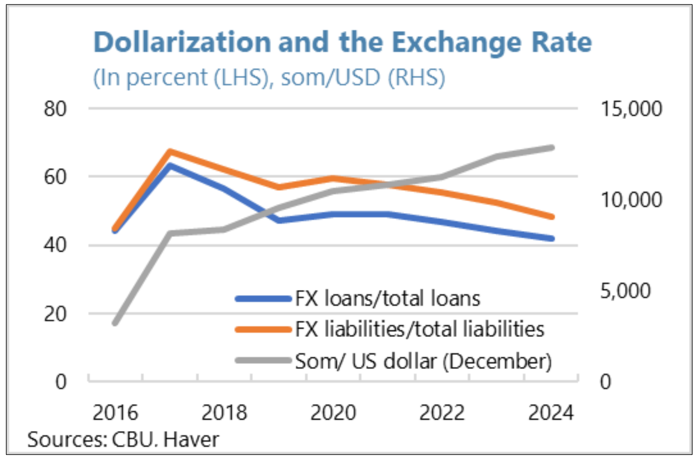
Monetary Policy Rate and Inflation

(In percent)



Source: Haver, CBU, IMF staff estimates.

3. **The bank-centered financial sector has been growing rapidly since 2017**. Over the past seven years, total assets of financial institutions increased by around nine times in nominal terms, a remarkable pattern compared to regional peers (Figures 2–4). Progress has been achieved in reducing dollarization, although its share remains relatively high. NBFIs and capital markets are underdeveloped.



4. **The government retains significant ownership in the financial sector.** Nine SOCBs continue to dominate with a market share of 65 percent of banking system assets. Progress in privatization has been slower than expected, including due to external factors such as the COVID-19 pandemic and geopolitical developments, as well as some domestic factors, including NPL transparency and resolution challenges (see below). Three SOCBs were privatized in 2023–24, and four other banks are in the process of being privatized. Several banks are expected to remain fully owned by the government ("policy banks"). State-owned enterprises (SOEs) also dominate the real economy in many sectors (e.g., utilities, mining).

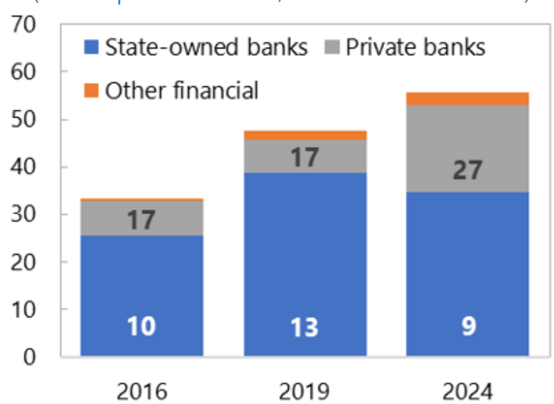
5. **Though SOCBs are moving towards operating on a commercial basis, directed and preferential lending remains high, leading to inefficiencies and fiscal costs.** "Directed credit" is intended to support SOEs and priority economic sectors, while "preferential credit" is provided for social objectives at subsidized interest rates. Although the share of directed and preferential lending in total bank lending has been declining in recent years, it remains high (24 percent as of end-2024, down from 39 percent in 2020). SOCBs are expected to meet certain lending targets under directed and preferential programs, weakening their incentives to properly assess borrowers' capacity to repay, necessitating periodic recapitalizations to cover credit losses. Between 2017 and 2023, the annual recapitalization of SOCBs using public funds ranged between 0.4–2.0 percent of GDP, which cumulatively amounted to the equivalent of US$5.8 billion (5 percent of annual GDP).

Figure 2. Uzbekistan: Financial System

The financial system has experienced strong growth since 2017, but it remains bank-centric and dominated by state-owned commercial banks. Uzbekistan's credit to GDP ratio has grown significantly.

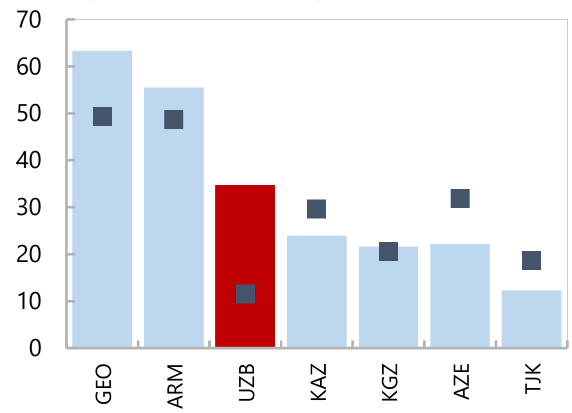
Financial System Assets

(Bars in percent of GDP; number of institutions)



Credit to GDP Ratio

(In percent, bars 2023, squares 2016)



The authorities have identified seven D-SIBs. These include National Bank of Uzbekistan, Agrobank, Uzpromstroybank, Xalq Bank, Asaka Bank (all SOCBs), Kapital Bank (domestic private), and Ipoteka Bank (a foreign subsidiary, privatized in 2023).

Financial Sector Structure

(Billions of som, unless otherwise indicated)

Financial corporations	January 1, 2017				January 1, 2020				December 1, 2024			
	Number	Assets	% of system	% of GDP	Number	Assets	% of system	% of GDP	Number	Assets	% of system	% of GDP
I. Commercial banks	27	84,075	98.4	32.9	30	272,727	96.3	45.9	36	769,330	94.9	52.9
State owned	10	64,982	76.1	25.4	13	230,126	81.3	38.7	9	503,187	62.0	34.6
Other	17	19,093	22.4	7.5	17	42,600	15.0	7.2	27	266,143	32.8	18.3
II. Other financial corporations	102	1,343	1.6	0.5	191	10,432	3.7	1.8	265	41,659	5.1	2.9
Insurance companies	26	1,184	1.4	0.5	39	3,460	1.2	0.6	35	11,813	1.5	0.8
Leasing companies*					34	4,225	1.5	0.7	37	8,800	1.1	0.6
Microfinance banks	--	--	--	--	--	--	--	--	0	0	0.0	0.0
Microfinance organizations	29	94	0.1	0.0	56	711	0.3	0.1	100	7,864	1.0	0.5
Pension funds 1/									1	7,385	0.9	0.5
Collective investment schemes 1/									9	10	0.0	0.0
Pawnshops	47	66	0.1	0.0	61	130	0.0	0.0	92	498	0.1	0.0
Enterprise Devt Company (EDC)					1	1,907	0.7	0.3	1	5,289	0.7	0.4
III. Total financial system	129	85,418	100.0	33.4	221	283,159	100.0	47.6	301	810,989	100.0	55.8
Memorandum items:												
Republican CCY Exchange		0		0.0		41		0.0		293		0.0
Republican Stock Exchange (market cap) 1/		60		0.0		51		0.0		242		0.0
Mortgage Refinance Company (UzMRC)						409		0.1		5,574		0.4
Uz Fund for Reconstruction & Devt (UFRD)		80,063		31.3		242,226		40.7		292,189		20.1

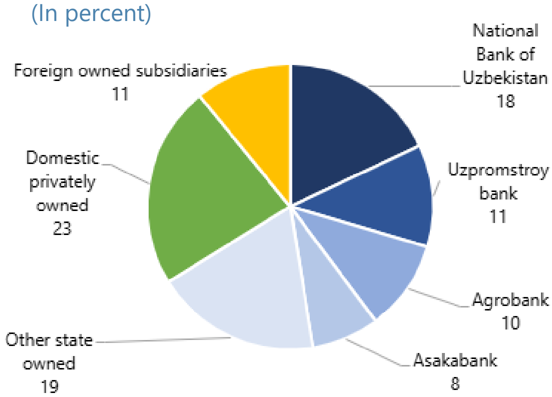
Sources: Annual reports, CBU, NAPP.
1/ as of January 1, 2025.
* Includes only members of Uzbekistan Lessors Association.

Sources: CBU, IMF staff estimates.

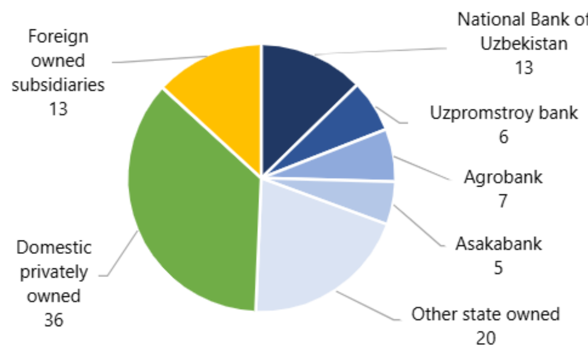
Figure 3. Uzbekistan: Banking System Landscape

State-owned commercial banks (SOCBs) account for two-thirds of banking system assets and half of deposits.

Banking System Assets, December 2024
(In percent)

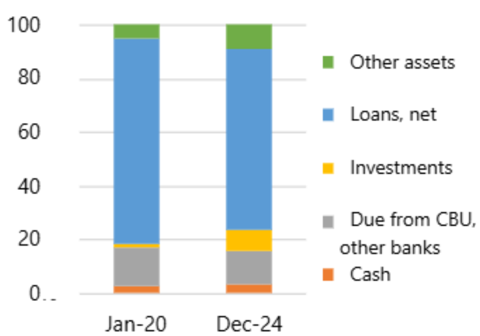


Banking System Deposits, December 2024
(In percent)

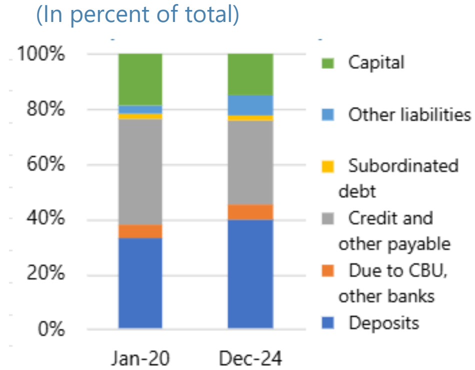


Bank assets are loan-dominated, while deposits comprise only 40 percent of funding.

Bank Assets
(In percent of total)



Bank Liabilities
(In percent of total)



SOCBs specialized in lending to specific sectors or groups, as below. As part of the banking strategy, most are undergoing transformation, including by bringing in independent board members, upgrading risk management, enhancing corporate governance, and greater commercialization of activities.

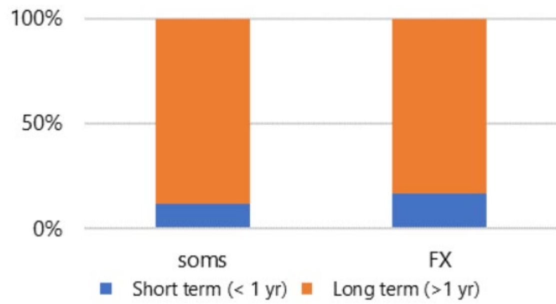
	SOCB name	*Main focus of lending before transformation*
1	*National Bank of Uzbekistan*	*Large SOEs, government-led strategic projects*
2	*Uzpromstroybank*	*Industry and construction, strategically important projects*
3	*Agrobank*	*Agriculture, small and medium sized business*
4	*Asaka bank*	*Corporate loans*
5	*Xalq bank*	*Government pension system, social lending programs*
6	*Business Development Bank*	*Micro, Small and Medium Enterprises (MSME) funding*
7	*Microcreditbank*	*MSME business*
8	*Aloqa Bank*	*Corporate lending*
9	*Turon Bank*	*MSME funding*

Sources: CBU, IMF staff estimates.

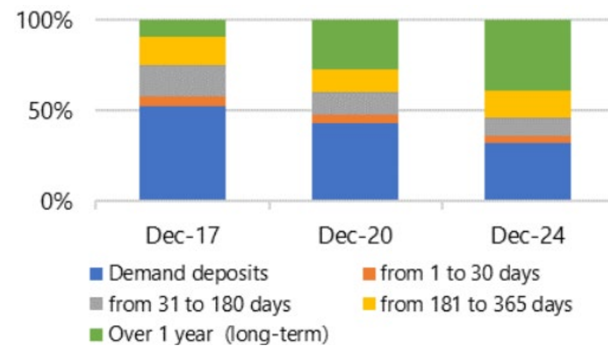
Figure 4. Uzbekistan: Bank Balance Sheets by Maturity, Currency, and Counterparty

Lending is predominantly longer term, while the maturity structure of deposits has lengthened over time.

Maturity Structure of Loans, Dec 2024
(In percent of respective currency loan totals)

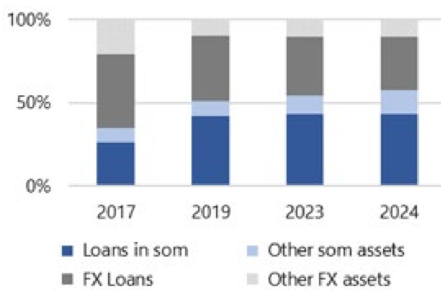


Maturity Structure of Deposits
(In percent of total)

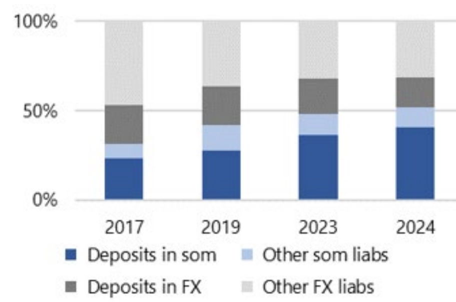


The currency composition of the balance sheet is roughly even between local currency and FX, an improvement since 2017 when the balance sheet was more FX-skewed.

Assets by Currency
(In percent of total)

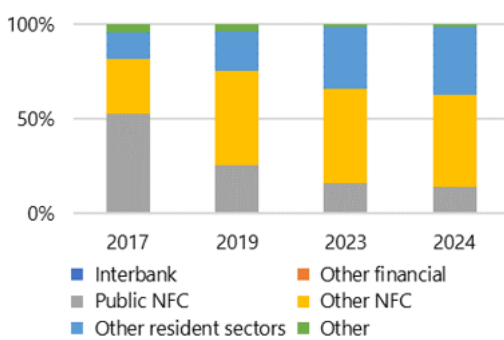


Liabilities by Currency
(In percent of total)



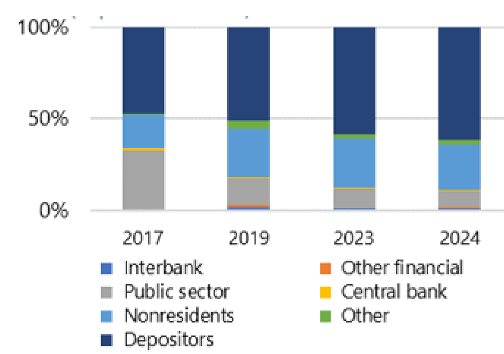
The share of lending to SOEs has come down though SOEs with<50% state ownership are grouped in "Other NFC."

Assets by Counterparty
(In percent of total)



... while deposits have increased significantly relative to other sources of funding.

Borrowing by Counterparty
(In percent of total)

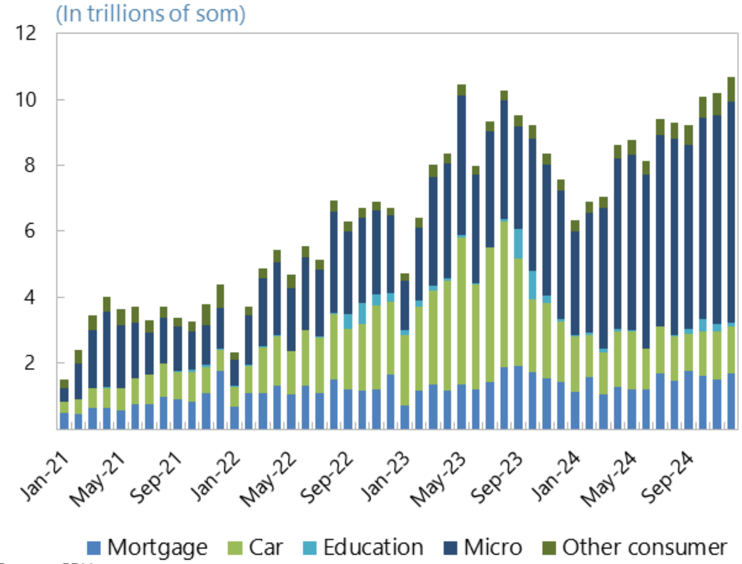


Sources: CBU, IMF, IMF staff estimates.

MACROFINANCIAL DEVELOPMENTS

6. During 2022–23, the expansion of bank lending was directed toward households. Though corporate lending constitutes around two thirds of bank loans, lending to households—especially consumer and car loans—was expanding particularly rapidly spurred by trade and financial liberalization, strong household income growth, and preferential lending programs. Forbearance and other supportive measures during the COVID-19 pandemic also helped sustain credit growth (Figure 5).

New Household Loans Issued
(In trillions of som)



Source: CBU.

7. Credit growth moderated in 2024 in response to macroprudential policy action. Concerned about rising household indebtedness, the CBU adopted a series of macroprudential measures aimed at containing risky lending practices (Table 3). Household lending growth has subsequently slowed, except for microloans.

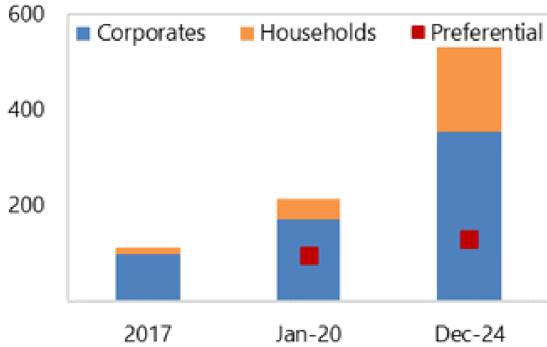
8. Only nonfinancial corporations (NFCs) are allowed to borrow in foreign exchange (FX), and hedging is relatively underdeveloped. Lending in FX to households was banned in 2019. FX lending to NFCs is attractive to borrowers due to lower interest rates. However, many FX borrowers do not have a natural hedge, and FX hedging activity appears limited.

9. Reported bank performance indicators are positive. The aggregate CAR has been above 17 percent since 2020, against the regulatory minimum of 13 percent (Table 4). Profitability weakened in 2024 due to higher non-interest expenses, while interest rate spreads remained broadly stable (Figure 6). Lending and deposit rates do not appear to be responsive to monetary policy actions, though interest rate spreads have come down since 2019 (Box 1). Overall, bank soundness indicators in Uzbekistan have been improving but remain somewhat weaker than those reported by regional peers (Figure 7).

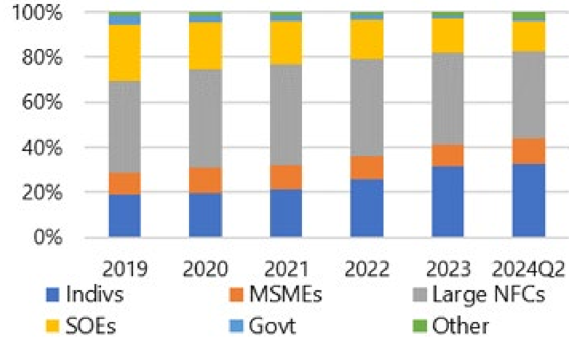
Figure 5. Uzbekistan: Credit Developments

Lending to households has grown significantly, while the share of preferential lending has come down. Lending to corporates has been provided mainly to large NFCs and SOEs, with MSMEs accounting for a smaller share.

Total Bank Loans
(In trillions of som)



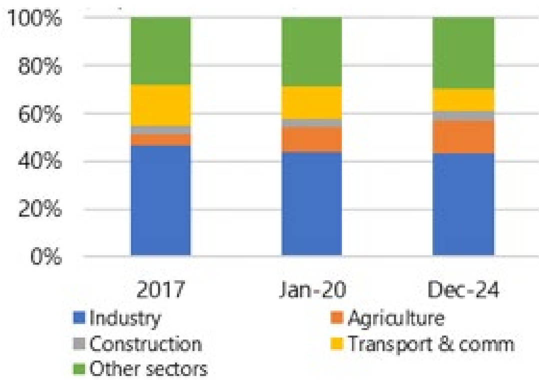
Bank Lending by Market Segment
(In percent of total loans)



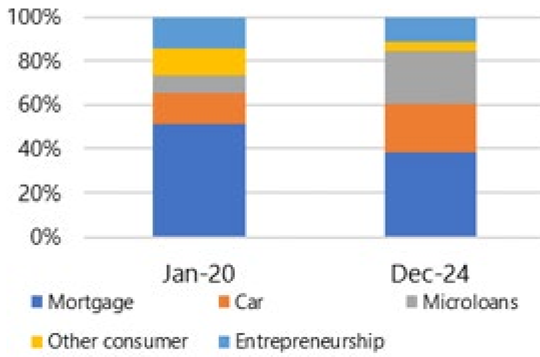
Most corporate lending goes to agriculture and industry.

Most household lending is for mortgages, car loans and microloans.

Bank Lending to Businesses
(In percent of total)

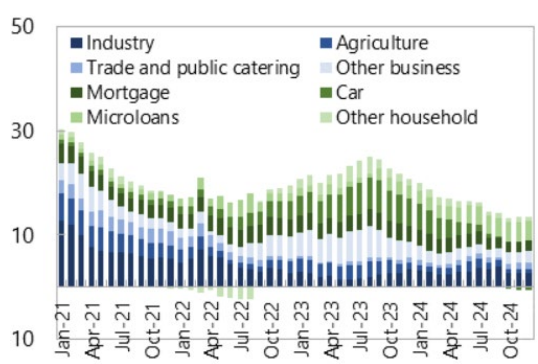


Bank Lending to Households
(In percent of total)

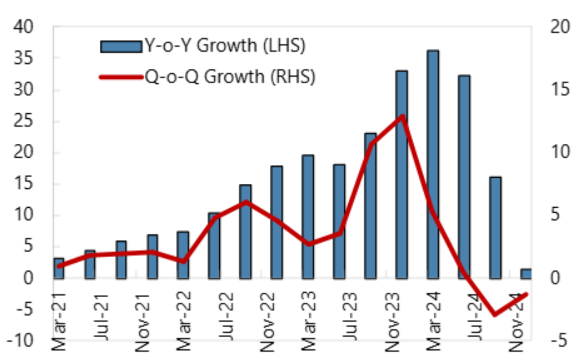


Growth in mortgage lending, which is mostly carried out on preferential terms, also contributed to house price growth.

Credit Growth by Sector
(In percent contribution to total credit growth, y-y)



House Price Index
(In percent change)

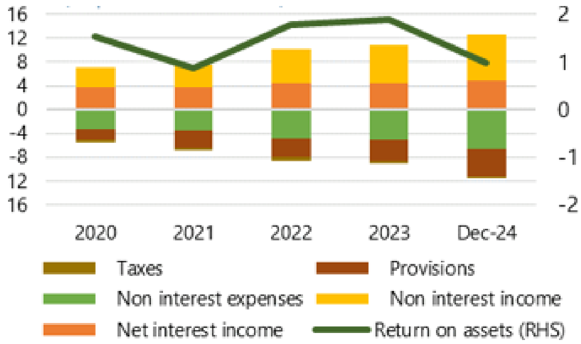


Sources: CBU, IMF staff estimates.

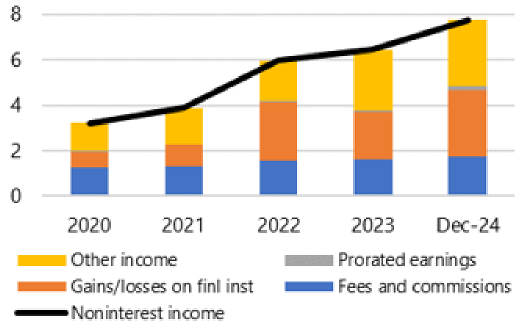
Figure 6. Uzbekistan: Bank Profitability and Interest Rate Spreads

Bank profitability fell in 2024, dragged down by non-interest expenses and provisions. Part of the gains and losses on financial instruments reflects revaluation due to FX movements.

Net Income (After Taxes)
(In percent of assets)

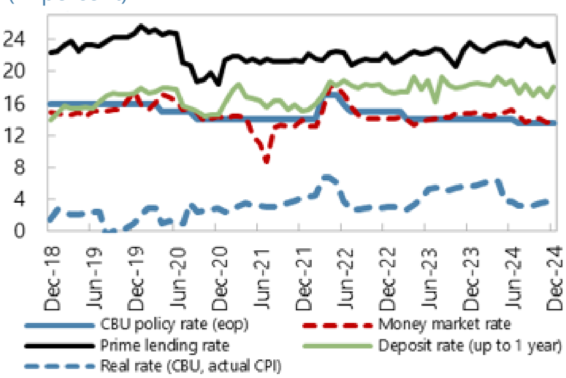


Non-Interest Income
(In percent of assets)



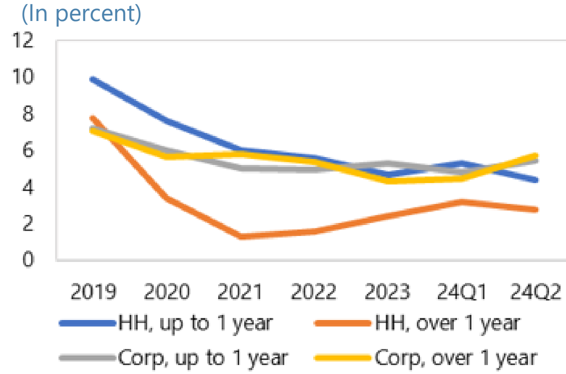
Lower monetary policy rates have not transmitted to deposit and lending rates.

Key Interest Rates, Local Currency
(In percent)



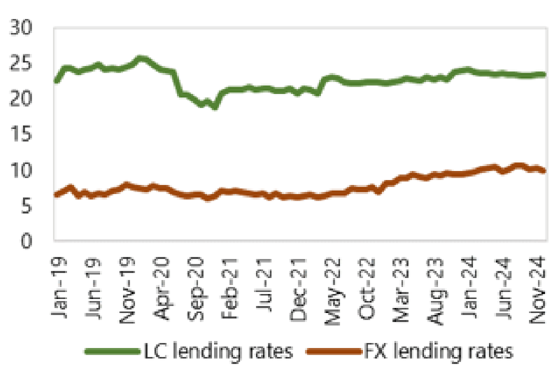
Interest rate spreads on local currency lending have fallen from 2019. LT HH spreads may reflect preferential terms.

Interest Rate Spreads, Local Currency
(In percent)



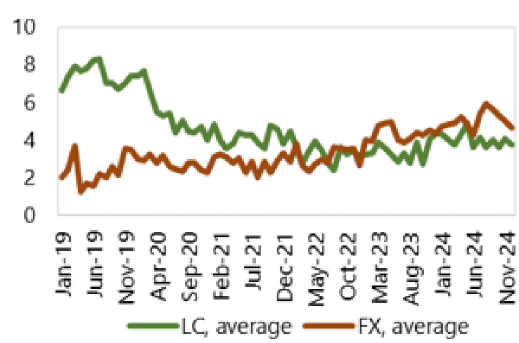
Lending rates in local currency are significantly higher than those for FX loans, driving demand for dollar loans.

Lending Rates
(Weighted average rates, in percent)



Interest rate spreads on FX loans appear to be rising, while those on som lending have remained broadly stable.

Interest Rate Spreads
(Loan minus deposit rates, in percent)



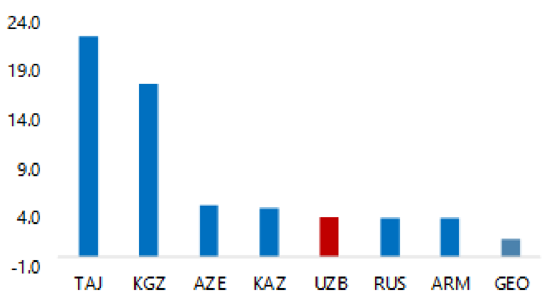
Sources: CBU and IMF staff estimates.

Box 1. Uzbekistan: Interest Rate Spreads in Uzbekistan Since 2017

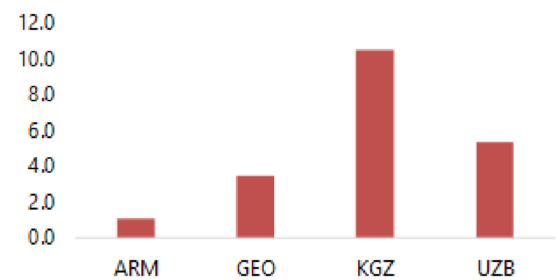
Uzbekistan's bank interest rate spread (interest rates charged on loans minus the interest rates paid on deposits) has been generally high. The spread increased sharply in 2018–19 and narrowed gradually, falling to 4 percentage points in 2022-23, reflecting economic stabilization, strong growth, and higher though still limited competition in the banking sector. The spread widened to 5 percent in the first nine months of 2024 due to declines in interest rates on legal entities' deposits, while lending rates have changed by less.

Uzbekistan's interest rate spread is generally in line with that of other countries in the region. In 2023, it was significantly higher than in Georgia, similar to most other regional peers, and much lower than in Tajikistan and the Kyrgyz Republic. Such high interest spreads in the region reflect bank-specific factors such as high operating costs, credit and liquidity risks, market structure, and the macroeconomic environment (see Almarzoqi and Ben Naceur (2015)).

Interest Rate Spreads, 2023
(In percent)



Risk Premium on Lending, 2022
(In percent, lending minus T-bill rate)

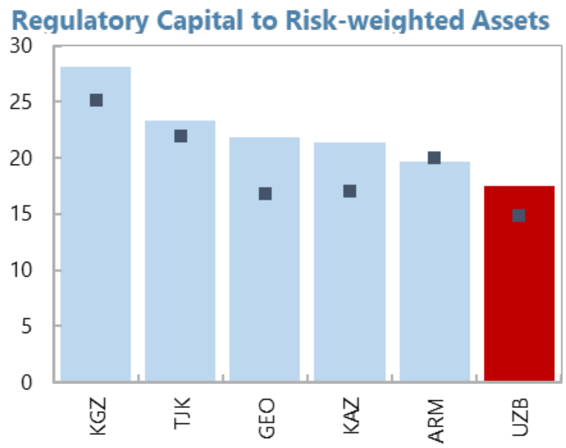


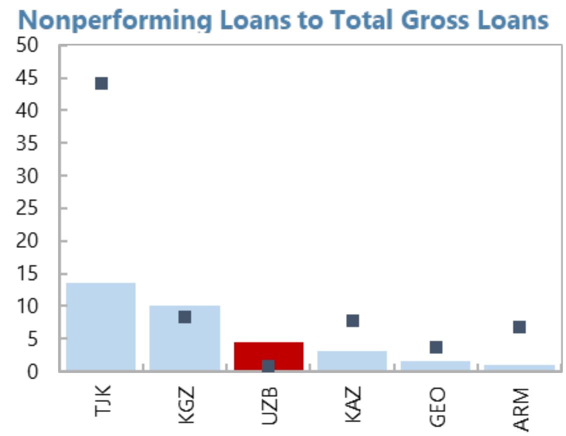
Sources: IMF, *IFS*, Haver (for Kazakhstan and Tajikistan), the Statistical Agency, and WB.

The latest available data confirm a positive correlation between spreads and the operational expense ratio or the NPL ratios in the Caucasus and Central Asia region. High operational costs are possibly related to limited digital banking, reliance on more expensive physical branches and cash-handling systems, the non-remuneration of required bank reserves, excessive employment at SOCBs, small sizes of some private banks, high funding costs, and elevated credit risk resulting in high NPLs and provisioning. Additionally, spreads correlate positively with the risk premium on loans (bank lending rate minus government bond/treasury bill rate) and the availability of credit information. In Uzbekistan, the risk premium declined significantly from 2019 to 2022, reflecting macroeconomic stability and improvements in perceived risk, but remained higher than in Georgia and Armenia. The difference might reflect weaknesses in property and creditor rights, insolvency procedures, and limited credit information in Uzbekistan. More generally, limited competition, sizable preferential lending, and underdeveloped capital markets and NBFIs are likely to have contributed to high spreads.

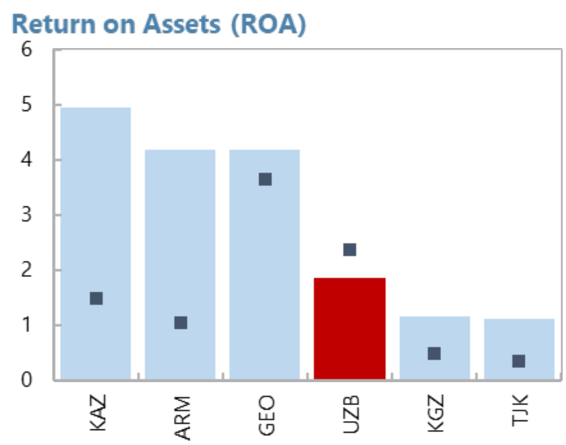
Figure 7. Uzbekistan: Selected Banking Soundness Indicators in the Region
(Percent; Latest available in bars, 2017Q4 in squares)

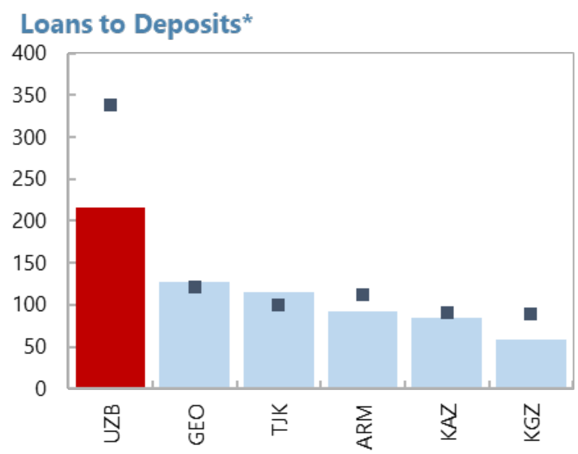
The regulatory capital position is weaker than peers in the region, while official NPLs are in the middle range.



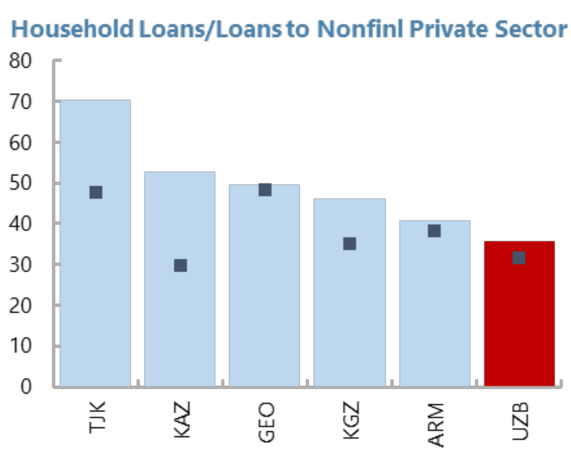


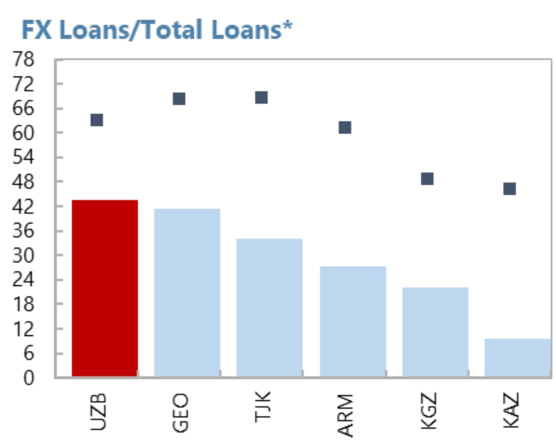
Profitability is on the low side, with high reliance on non-deposit funding.





Lending to households is a significant share of lending while loan dollarization has declined but remains high.





*Due to data constraints, the date for the square for Uzbekistan is 2019.
Source: IMF.

10. Performance differs significantly between state-owned and other banks. Domestic privately-owned and foreign-owned banks have been generally more profitable and liquid than SOCBs. The NPL ratio and the ratio of substandard loans to total loans are higher in SOCBs than in private banks. The loan-to-deposit ratio is particularly high for SOCBs reflecting long-term external funding, which also contributes to dollarization of both assets and liabilities of SOCBs.

Financial Indicators by Groups of Banks, 2024

(In percent)

	System	SOCBs	Dom. priv.	Foreign
Share of banking system assets	100.0	65.5	23.5	11.1
Regulatory capital to RWA	17.4	16.6	18.5	19.2
NPL ratio	4.0	3.9	2.6	7.5
NPLs on FX loans*	3.4	3.2	1.4	10.3
NPLs on som loans	4.5	5.5	2.2	4.3
Substandard loan ratio	17.3	21.5	9.1	5.6
IFRS Stage 3 loans/loans (end 2023)	7.8	8.1	2.6	15.2
Loan loss provisions/NPLs	45.4	48.2	32.1	45.3
10 Largest borrowers/capital	113.4	142.1	63.5	77.3
Lending to/Total: Large enterprises	39.3	43.9	33.6	18.9
State-owned enterprises	13.1	17.2	1.8	9.7
SMEs	10.6	11.7	8.6	7.2
Households	33.3	25.3	46.2	61.5
Lending on preferential terms/total loans**	29.5	38.4	3.1	20.2
Return on assets	1.4	0.1	5.1	1.3
Return on equity	9.2	1.1	30.9	7.5
Cost to income ratio	74.3	72.5	78.6	71.2
Lending-deposit rate spread**	4.1	1.5	7.2	4.3
Loans to deposits	172.7	237.2	101.0	126.6
Liquid assets/ST liabilities	42.6	35.1	52.1	59.5
Liquid assets/total assets	18.7	14.3	25.9	28.8
FX loans/total loans	42.9	48.3	33.1	26.7
FX liabilities/Obligations*	49.8	55.1	36.5	40.1
Borrowing ex deposits/total liabilities	43.3	53.2	18.0	32.8
Net open FX position relative to capital	-0.4	-1.9	1.8	2.0

Source: CBU, Fund staff calculations.

* As of September 2024. Obligations defined as liabilities excluding capital.

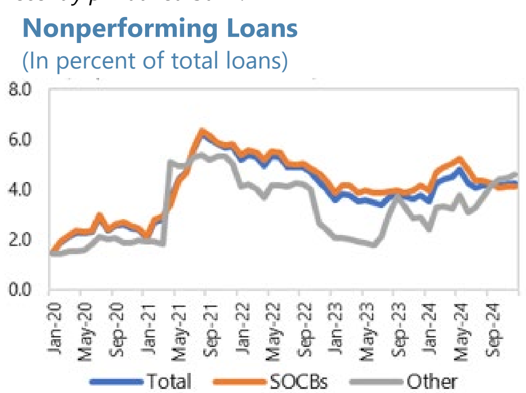
** as of June 2024

Note: The largest foreign-owned bank accounts for 6.7 percent of total bank assets.

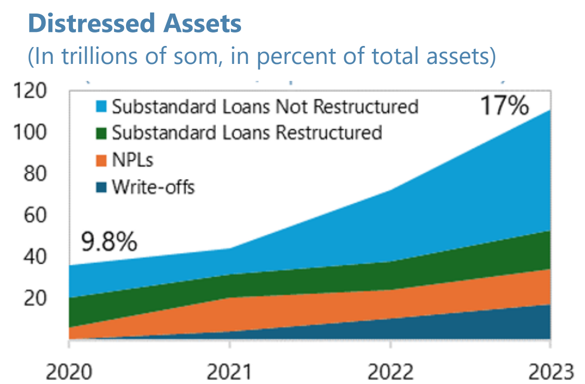
11. The NPL ratios have declined from the pandemic surge, but distressed assets have risen (Figure 8). The decline in the NPL ratio reflects strong credit growth and aggressive loan write-off requirements. However, the distressed assets—which include substandard loans—have been increasing both in nominal terms and as a share of total assets.

Figure 8. Uzbekistan: NPLs and Distressed Assets

The 2024 increase in "Other" reflects NPL recognition in a recently privatized bank.



Distressed assets have increased significantly.



Source: CBU.

12. Overstated asset quality represents a significant concern. Based on International Financial Reporting Standards (IFRS), the NPL ratio (IFRS Stage 3 loans) is twice as high as the NPL ratio based on the regulatory data (Figures 9–10). Several gaps in the regulatory framework allow banks to defer NPL recognition and report these loans as substandard. As a result, the true degree of asset quality, especially the quality of restructured loans, is uncertain.

13. Corporate sector indicators suggest pockets of vulnerabilities (Figure 11). While group averages are at healthy levels, several enterprises report persistent losses, and some companies—including small, medium, and large enterprises—have had interest coverage ratios of less than 100 percent over prolonged periods. NFCs with minority state ownership demonstrate better financial health than majority or fully owned SOEs. Firms with persistent losses and elevated risks of insolvency and/or illiquidity are predominantly in agriculture and construction.

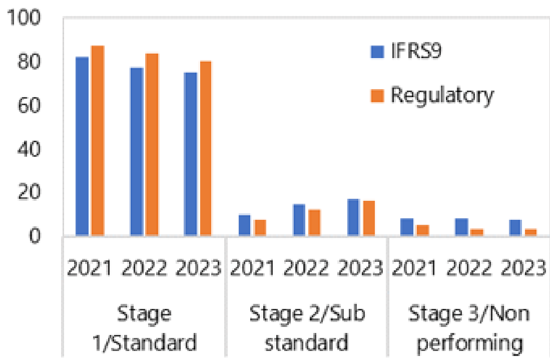
SYSTEMIC RISK ASSESSMENT

14. The FSAP quantitative analysis focused on bank exposure to credit risk, including indirect foreign currency-induced credit risk, and liquidity risk (Annex I). Credit risk—which is compounded by asset quality overstatement—primarily arises from the significant share of lending to NFCs. The main concerns relate to lending under government programs, lending in foreign currency to unhedged borrowers, and other lending to the corporates making persistent losses. Some deterioration in lending to households may also be expected as these loans mature. Liquidity risk related to potential external debt rollover is mitigated by the fact that a significant share of this funding is from international financial institutions with a long maturity. Solvency and liquidity stress tests covered all 36 banks (Annex II).

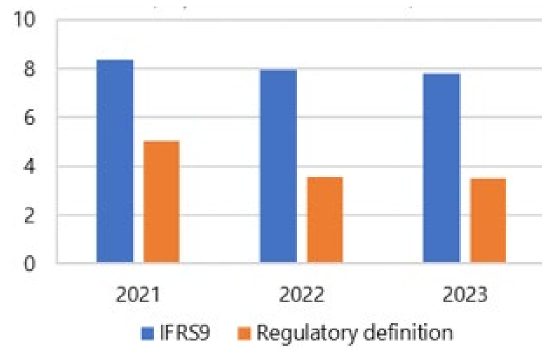
Figure 9. Uzbekistan: Asset Quality

IFRS9 figures differ significantly from local regulatory figures, suggesting that regulatory NPL data overstates asset quality.*

Asset Quality, IFRS9 vs. Regulatory Definitions
(In percent of total loans)

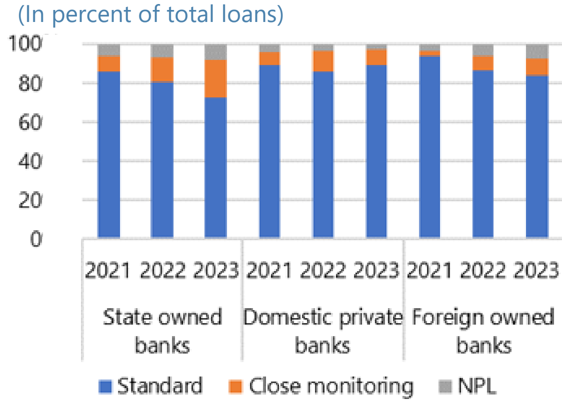


NPLs vs. IFRS9 Stage 3
(In percent of total loans)

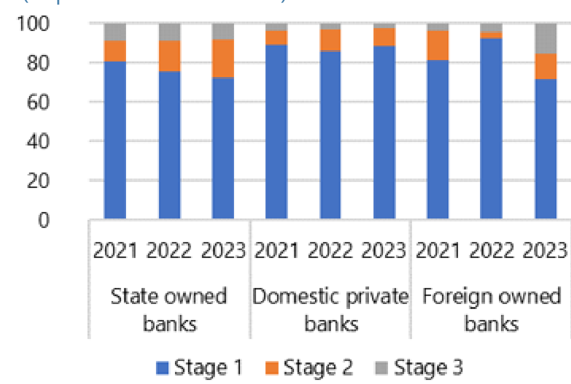


Asset quality of SOCBs appears weaker than other bank groups.

Asset Quality by Bank Group, Regulatory
(In percent of total loans)



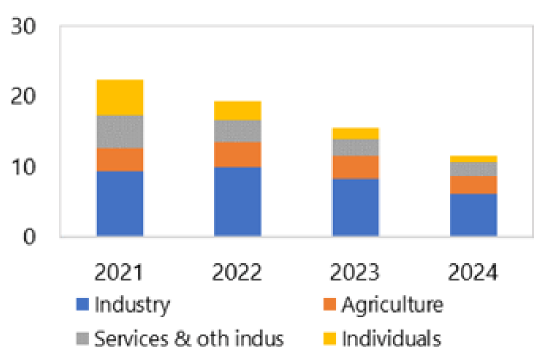
Asset Quality by Bank Group, IFRS
(In percent of total loans)



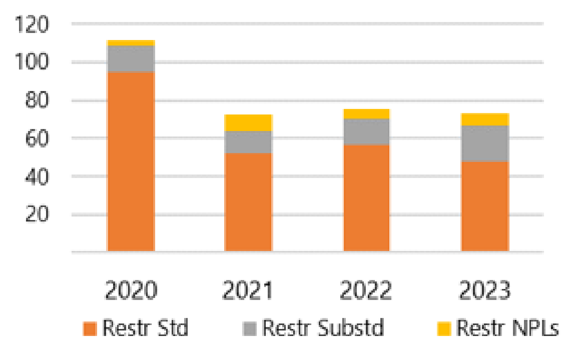
The ratio of restructured loans has come down but remains high, concentrated in industry and agriculture.

Most restructured loans remain classified as "standard", though some may actually be NPLs.

Restructured Loans by Industry
(In percent of total loans)



Restructured Loans by Category
(In trillions of som)

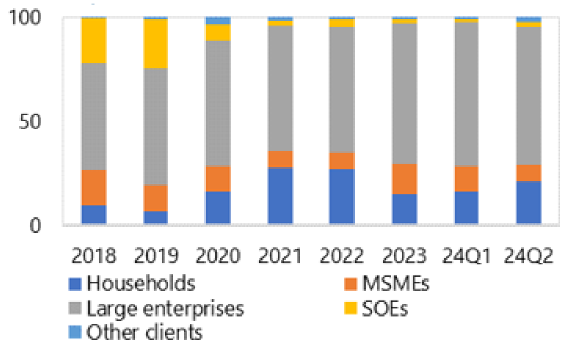


Source: CBU, IMF staff estimates. *IFRS figures are only available on an annual basis, with a lag of six months.

Figure 10. Uzbekistan: Nonperforming Loans

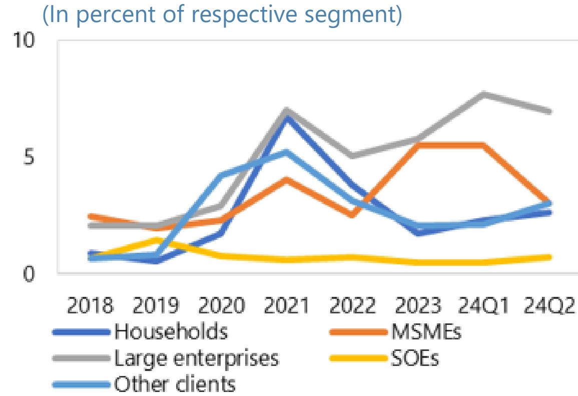
Large enterprises account for most NPLs.

NPLs by Loan Segment
(In percent of total NPLs)



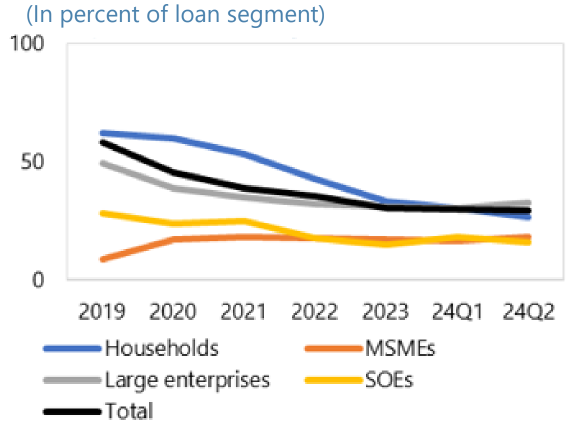
They also account for the highest share of NPLs in their own loan segment.

NPLs by Loan Segment
(In percent of respective segment)

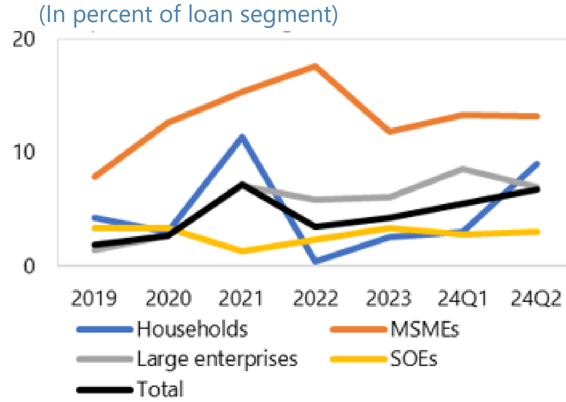


The share of preferential loans in each loan segment has been broadly stable since 2023 as overall loan growth has tapered, while the repayment record of MSMEs has been weakest, and the repayment record for households has deteriorated.

Preferential Loans
(In percent of loan segment)

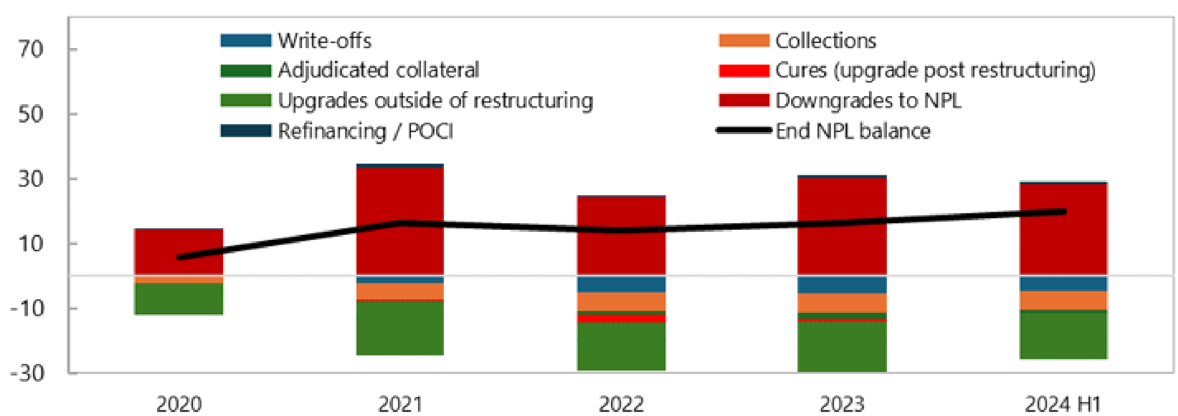


NPLs on Preferential Loans
(In percent of loan segment)



Most NPL flow reduction comes from upgrades outside of restructuring, collections, and write-offs.

NPL Flows, 2020–2024H1
(In trillions of som)

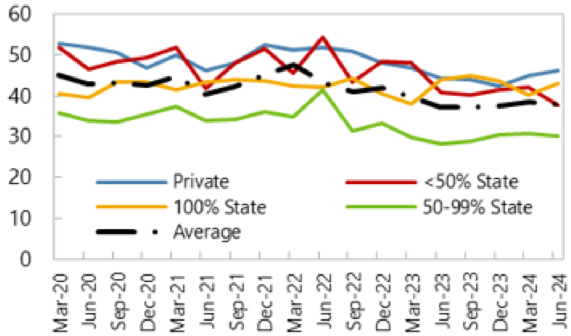


Sources: CBU, IMF staff estimates.

Figure 11. Uzbekistan: Corporate Sector Finances

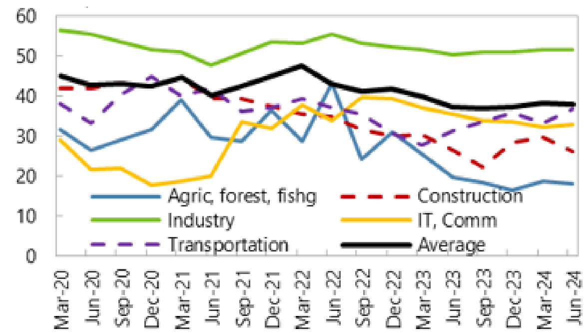
Private companies generally have higher equity than those with state ownership.

Average Equity-to-Assets, by Ownership
(In percent)



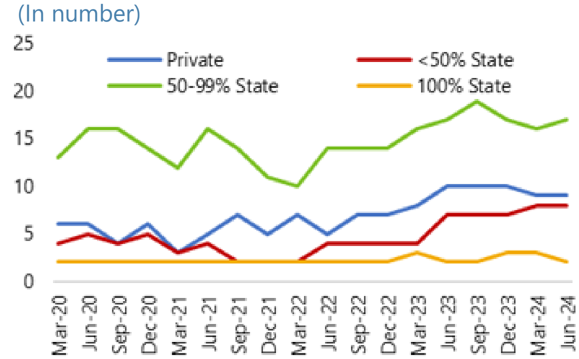
Firms in agriculture and construction have the lowest equity ratios.

Average Equity-to-Assets, by Sector
(In percent)



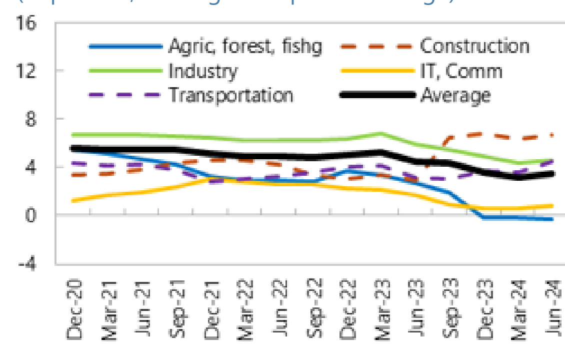
Majority state-owned companies account for much of the companies with high debt.

Companies With Debt-to-Equity>200 Percent
(In number)



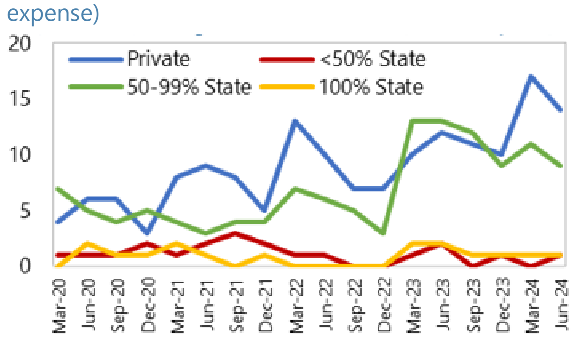
Agriculture and IT/communication sectors have experienced negative/low profitability for some time.

Average Return on Assets, by Sector
(In percent, moving four-quarter average)



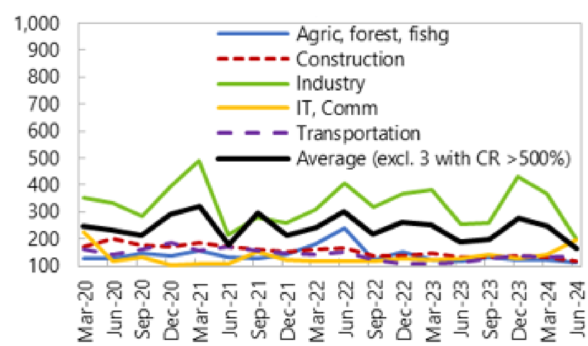
Private and majority state owned firms account for most of the companies with low interest coverage ratios.

Enterprises With Interest Coverage Ratio < 1
(In numbers, earnings before interest & taxes/interest expense)



IT/communications' firms current ratios have increased in recent quarters.

Average Current Ratio, by Sector
(In percent, current assets/current liabilities)



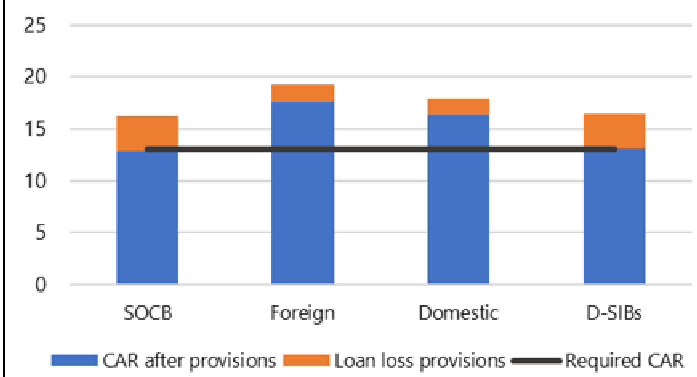
Sources: CBU, IMF staff estimates. Based on a sample of 70 joint stock companies accounting for 35 percent of bank loans to NFCs.

A. Solvency Stress Test

15. Stress tests consisted of macrofinancial shocks under baseline and adverse scenarios with a three-year horizon. The baseline scenario was built on the assumptions of the October 2024 World Economic Outlook. The adverse scenario assumed deepening geoeconomic fragmentation and a global economic downturn, triggering a decline in global commodity prices, reduced FX inflows, a depreciation of the Uzbek som, increased inflation, a sharp fall in GDP growth (by three standard deviations), and a decline in property prices (Figure 12). Since the adverse scenario in the stress tests assumes a more severe shock than the recent increase in uncertainty, the stress test results are unlikely to be significantly affected by the current global trade-related developments.

16. Under the adverse scenario, aggregate CAR would drop significantly below the required minimum of 13 percent, driven by the SOCBs (Figure 13). In the baseline scenario, the banking system remains adequately capitalized. However, five of the nine SOCBs would fall below minimum CAR, including two D-SIBs. In the adverse scenario, the aggregate CAR would decline to 9.9 percent, corresponding to a shortfall of 48 trillion som (2.2 percent of GDP). Only one SOCB would remain above minimum CAR, while more than half of other banks would stay above required levels. Adjusting the initial capital adequacy ratio for under-reported NPLs and subtracting subordinated debt (because it cannot be used for bail-in) would lead to a significantly higher shortfall under the adverse scenario. The system CAR would drop to 7.7 percent, corresponding to a shortfall of 79 trillion som (3.6 percent of GDP). As a complement to this stress test a currency-induced credit risk sensitivity analysis was conducted, where several SOCBs would end up under-capitalized in the wake of a 30 percent depreciation.

CAR After Som Depreciation
(In percent)



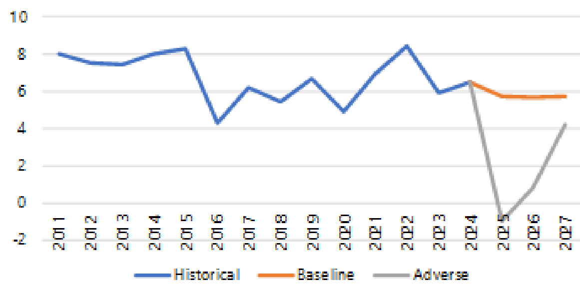
B. Liquidity Stress Test

17. Liquidity stress tests have not detected any major vulnerabilities, although high depositor concentration may create challenges in some banks. The liquidity stress tests applied Liquidity Coverage Ratio (LCR) parameters over a one-year horizon, performed for overall liquidity and separately for som and FX. The adverse scenario assumed a severe recession with large funding rollover needs among the banks' clients, large retail deposit withdrawals, drawdowns in credit lines, and a 10 percent haircut on domestic government bonds. Under both baseline and adverse scenarios, the system would maintain positive cash flow gaps (Figure 14), though several banks had small shortfalls under the adverse scenario (the largest shortfall corresponds to 3.0 percent of assets). In addition, most banks would be able to withstand a 30 percent depreciation of the som.

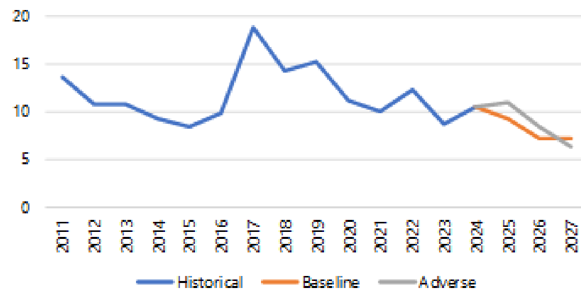
However, high depositor concentration could be challenging for several banks (e.g., a few private domestic banks).

Figure 12. Uzbekistan: Macroeconomic Assumptions for the Stress Test Scenarios

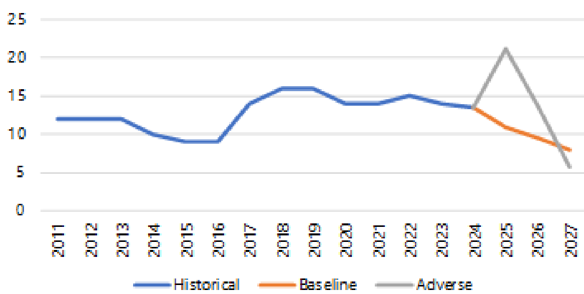
GDP, Real Annual Growth
(In percent)



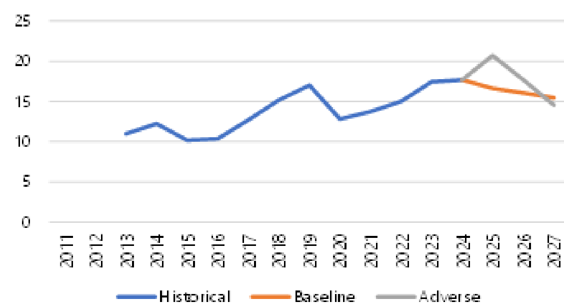
Inflation
(In percent)



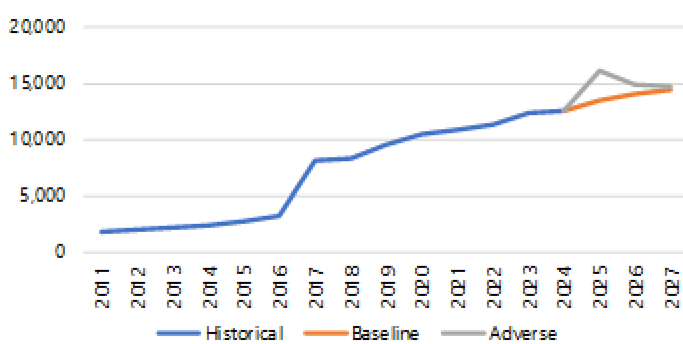
Policy Interest Rate
(In percent)



Loan Rate
(In percent)



Exchange Rate
(In som/US dollar)



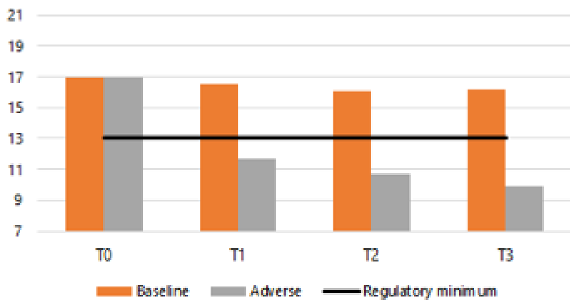
Source: IMF staff assumptions.

Figure 13. Uzbekistan: CAR Evolution in Stress Tests

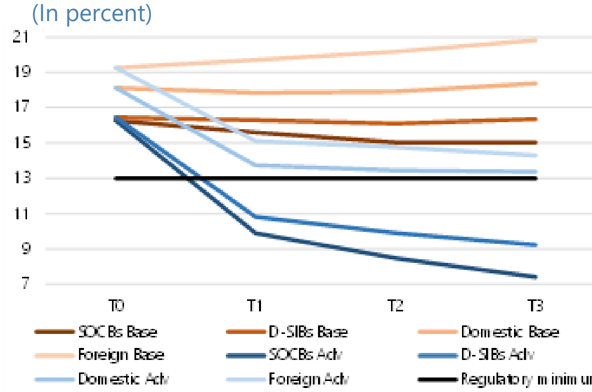
System CAR remains above the minimum capital requirement under the baseline, while in the adverse scenario aggregate CAR falls short by 2.2 percent of GDP.

SOCBs and D-SIBs are more adversely affected in the adverse scenario. At the bank level, only one SOCB would remain above minimum CAR in the adverse scenario.

System CAR
(In percent)

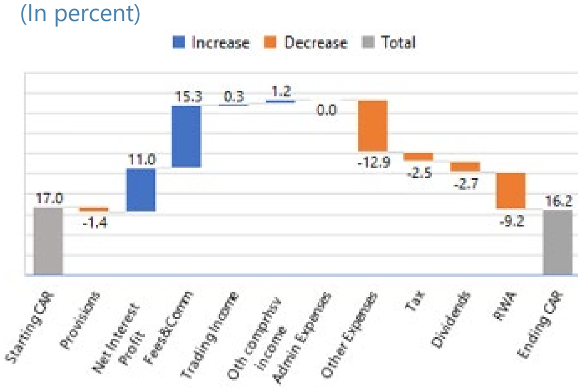


CAR by Bank Group
(In percent)

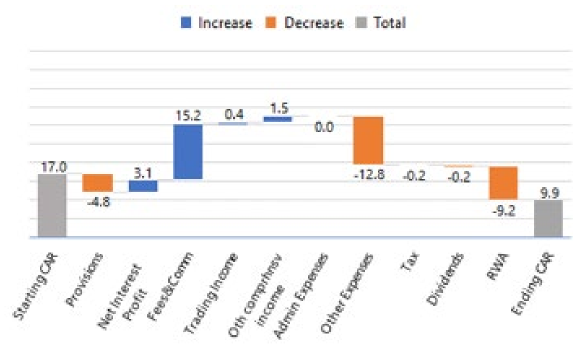


Compared to the baseline, lower net interest profit (from the empirically estimated negative relationship between interest rates and profits) and higher provisions (from the drop in GDP growth) drive the CAR deterioration between T0 and T3 in the adverse scenario.

Baseline Scenario CAR
(In percent)

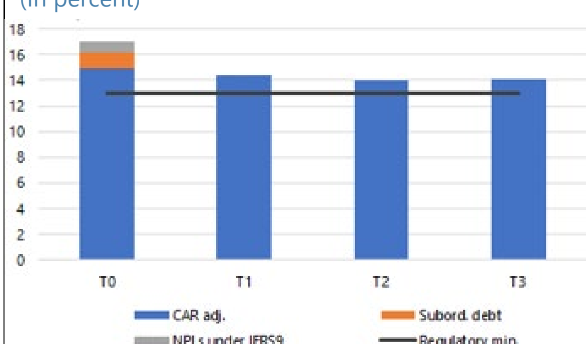


Adverse Scenario CAR
(In percent)

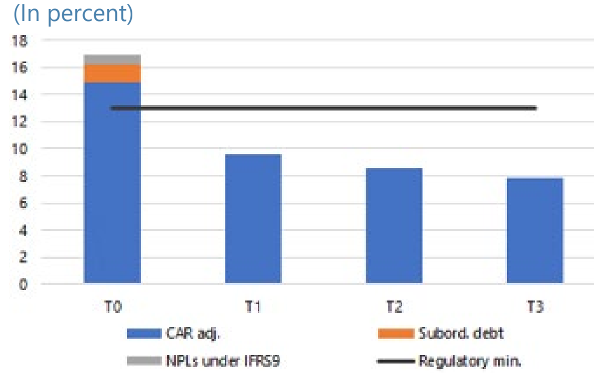


After adjusting initial capital for asset quality and subordinated debt, the results worsen, with a shortfall of 3.6 percent of GDP in the adverse scenario.

Baseline CAR After Adjustment to Initial Capital
(In percent)



Adverse CAR After Adjustment to Initial Capital
(In percent)

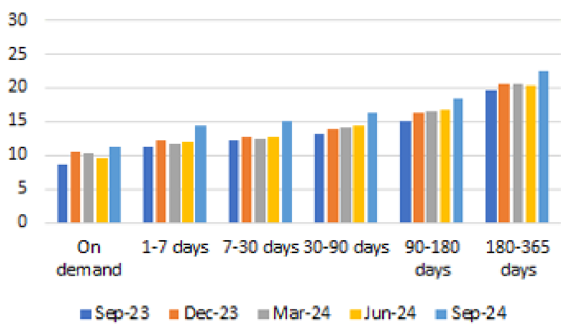


Source: IMF staff calculations.
Note: D-SIBs are a subset of the other groups of banks (see Figure 2).
T0 is the third quarter of 2024, and each time interval T1-T3 represents one year forward respectively.

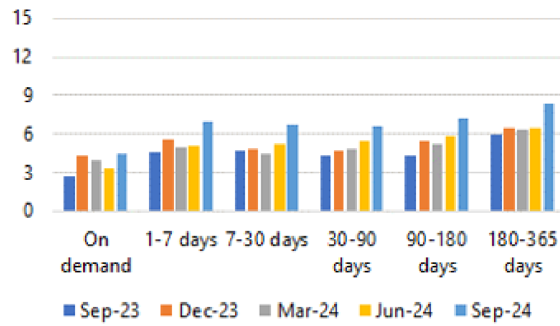
Figure 14. Uzbekistan: Banking System Cumulative Cashflow Gap
(Percent of assets)

The banking system shows positive cumulative cashflow gaps in both baseline and adverse scenarios for all currencies together, and the surplus has increased relative to previous periods, suggesting increased liquidity resilience.

Baseline All Currencies

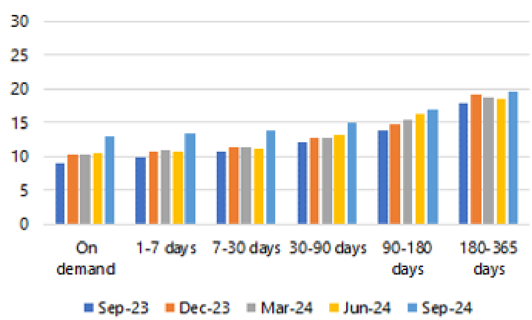


Adverse All Currencies

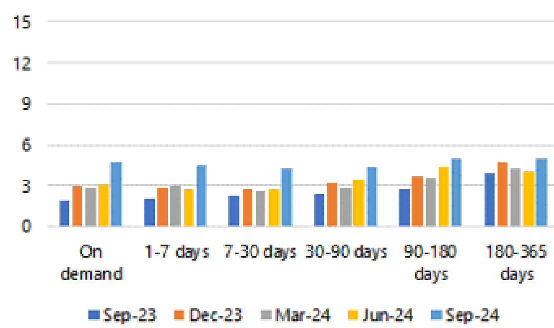


In general, the aggregated liquidity surplus increases over each time bucket.

Baseline Local Currency

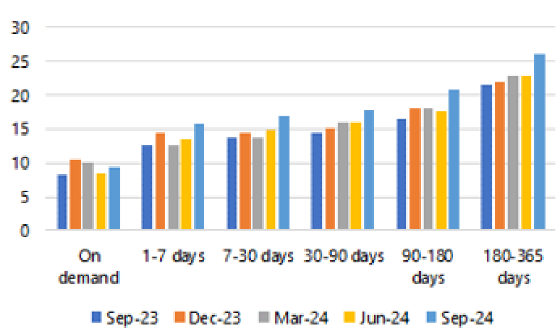


Adverse Local Currency

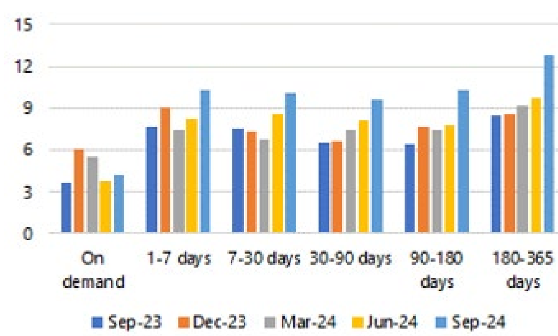


The banking system surplus in FX liquidity appears larger than that in local currency.

Baseline Foreign Currency



Adverse Foreign Currency



Sources: CBU, IMF staff calculations.

FINANCIAL SECTOR OVERSIGHT

A. Macroprudential Oversight

18. In recent years, the CBU has significantly strengthened its macroprudential policy framework. A Financial Stability Department was established in 2021, and the Macroprudential Policy Strategy, defining the goals, instruments, and decision-making process of macroprudential policies, was adopted in 2023. The CBU has displayed appropriate willingness and ability to act. Its mandate, however, covers "stability of the banking sector," while overall financial stability is a shared responsibility between the CBU and the government. Safeguarding banking stability amounted to safeguarding financial stability given the dominant role of banks. However, the authorities should expand the CBU's remit to financial stability and assign it as the macroprudential authority, to prepare for a more diverse financial landscape as the nonbank sector grows.

19. The planned establishment of a Financial Stability Board (FSB) should help coordination and cooperation in the pursuit of financial stability. The FSB will function as an inter-agency body with the CBU as its secretariat, tasked with facilitating cooperation on financial stability issues and dealing with possible financial crises. Since the FSB will have a dual mandate, its crisis prevention (macroprudential) and crisis management functions should be kept separate, with CBU assigned the leading role for macroprudential policy and a different composition in "normal times" versus "crisis times." To foster engagement, all agencies participating in the FSB should be provided a financial stability objective.

20. The CBU should continue enhancing its macroprudential policy toolkit. The CBU should adopt a counter-cyclical capital buffer with a positive-neutral setting during normal times. Additionally, the D-SIBs should be subject to capital surcharges commensurate to each bank's systemic importance. A systemic risk buffer could be considered for residual systemic risks not covered elsewhere, for example currency-induced credit risk. The borrower-based measures (BBMs) should be strengthened and broadened to all credit institutions and all types of household credit. The CBU should continue improving the LCR and Net Stable Funding Ratio (NSFR) calculation methodology to better account for existing risks, including from external or FX funding.

21. Addressing data gaps would be necessary to further strengthen systemic risk analysis. Enhancing granularity and quality of data on corporate and household balance sheets, direct and preferential lending, asset classification and provisioning, and restructured loans would allow for deeper systemic risk analysis. Reporting to the credit registry by providers of Buy Now Pay Later schemes should be made compulsory, and the number of monitored NFCs should be expanded as feasible.

22. The CBU's communication strategy could be further expanded to raise awareness of financial stability issues. The CBU could organize regular press conferences after the publication of the Financial Stability Report, issue regular press releases after macroprudential policy decisions, and expand the published financial stability material.

B. Banking Regulation and Supervision

23. The authorities have made significant progress in strengthening bank regulation and supervision, but the CBU's operational independence needs to be safeguarded. The LCBU enhanced the CBU's independence and set price and banking sector stability as its mandate. However, the CBU's operational independence is impinged in several dimensions. For example, the Law on Normative Legal Act (i) requires the CBU to agree with the "Chamber of Commerce and Industry" regarding the content of its draft banking regulations, and (ii) enables the Ministry of Justice to delay or refuse the registration of the CBU regulations. Also, some official decrees task the CBU with responsibilities that go beyond its legal mandates (e.g., development objectives).

24. The transition to risk-based supervision (RBS) should be supported by robust implementation. The December 2023 Guidelines on Risk-Based Supervision sets out robust and forward-looking methodology to be applied to all banks, but effective RBS requires consistent sound judgment within and across supervisory teams, and due consideration of the quality of banks' risk management and internal controls. Enhancements should be made to evaluate the banks' risk profile and internal controls during off-site supervision and on-site inspections. For off-site supervision, the role of the CBU curators should be formalized, clearly outlining their roles and responsibilities. An assessment of corporate governance should be systematically conducted. The CBU should also consider extending the time limit of on-site inspections beyond 30 days, as it may be insufficient to conduct a thorough review of the bank's credit file.

25. Implementation of consolidated supervision should be accelerated. The regulation to establish the specifics regarding consolidated supervision and the procedures for determining the perimeter and methods of consolidation is absent. Prudential requirements and supervisory reporting should be expanded from an individual bank basis to a consolidated level.

26. Supervisory reporting should be improved. The CBU collects reports from banks on an individual basis rather than on a consolidated basis. Additional ad hoc information is requested in an unstructured format. The data validity checks and the safety of data transfers need improvement. Supervisory reports from individual banks should also be subject to proportionality, in line with the RBS principles.

27. Although the CBU has advanced transition to Basel III, deviations from the Basel framework in the definition of capital should be addressed. The 13 percent required CAR includes a capital conservation buffer of 3 percent. However, the definition of capital is not fully aligned with the Basel framework. For example, subordinated debts are not subject to the writing-off/conversion requirement. Moreover, there are deviations in the methodology for calculating risk-weighted assets. There are no capital surcharges for D-SIBs. Due to the lack of a Pillar II methodology, the capital requirements are not calibrated to banks' risk profiles.

28. The CBU should prioritize accurate asset classification by banks. A significant amount of problem assets is under-reported due to gaps in the regulation on asset quality and provisioning. The main concern relates to the classification of restructured loans. Specifically, loan rescheduling with a grace period below six months does not affect classification, there is no viability assessment for restructured loans, and there is no probation period for upgrading a restructured loan from NPL status when the borrower resumes repayments. Action would also be needed to facilitate effective resolution of NPLs (Box 2).

Box 2. Uzbekistan: Resolution of Nonperforming Loans

The WB found that the existing legal framework does not foster effective NPL resolution. Banks mostly rely on collateral enforcement to deal with NPLs, while other resolution options—including out-of-court restructurings and NPL sales—are not used. The corporate insolvency regime is heavily weighted in favor of liquidation and is not an effective mechanism for NPL resolution. NPL sales are possible, but the market for distressed assets is underdeveloped partly due to uncertainties of the current transfer regime.

In addition to the legal changes, an accurate asset classification would be needed to optimize NPL resolution. The CBU should compel banks to accurately report asset quality, including by improving the regulation on asset quality and provisioning and scrutinizing banks' portfolios through on-site inspections and asset quality reviews. Special attention should be paid to loan segments where under-reporting practices are more intense, including preferential and directed lending. Once the true size of the NPL stock is estimated, the authorities should ensure that banks have sufficient provisions and capital buffers to absorb new losses.

Volumes, types, and distribution of NPLs across banks would determine the most appropriate resolution route. If most NPLs are concentrated only in a few banks, a bank-by-bank approach where NPLs are addressed organically using workouts, collateral enforcement, and write-offs can be successful. Policies for the resolution of troubled assets would need to be well-embedded into the risk management function of these banks. If the problem of weak asset quality is more systemic, a more centralized solution, including the possible establishment of a centralized asset management company, can be considered.

29. Liquidity requirements could be improved. The minimum amount of liquid assets is set at 10 percent of total assets. The LCR and the NSFR are both set at a minimum of 100 percent and must be fulfilled in local as well as FX. Banks must report their liquidity positions daily. However, liquidity requirements could be improved by calibrating them to the banks' risk profile and systemic importance.

C. Financial Integrity

30. Uzbekistan's AML/CFT regime is generally effective in mitigating the risks identified. According to the 2019 National Risk Assessment (NRA), the primary money laundering (ML) risks in Uzbekistan stem from corruption and bribery, tax and customs offences, illicit drug trafficking, organized crime, and fraud. The NRA also found a high risk of terrorism financing (TF). The 2022 assessment by the EAG concluded that Uzbekistan's AML/CFT regime was generally effective in addressing these risks. The AML/CFT supervision of banks was deemed to be well-established, although NBFI supervision could be improved in a few areas.

31. Efforts to strengthen the AML/CFT regime should continue. These should focus on: (i) strengthening criminal justice efforts to combat ML by identifying complex ML schemes; (ii) establishing a system of administrative liability for legal persons to allow for the imposition of sanctions on legal persons implicated in ML/TF schemes; (iii) continuing to enhance RBS in AML/CFT, particularly for the NBFIs (insurance, securities, and leasing sectors); (iv) taking targeted supervisory measures to ensure financial institutions collect accurate and up-to-date beneficial ownership information; and (v) tracking and responding to risks related to virtual assets.

FINANCIAL SAFETY NETS AND CRISIS MANAGEMENT

32. **The authorities are making significant progress in developing a crisis management framework based on the Key Attributes of Effective Resolution Regimes.** A new law "On bank resolution and liquidation" (BRLL) was approved by the Senate in April 2025. It establishes the resolution process, including bail-in, transfer tools, bridge bank, and the procedures for bank liquidation to apply to all banks. The law "On Guarantees of Protection of Bank Deposits," enacted in February 2025, removed the blanket deposit guarantee, enhanced the mandate of the Deposit Guarantee Agency (DGA) to a "paybox plus," extended the deposit protection to legal entities, mandated the participation of all banks, and shortened the payout period.

33. **The planned establishment of the FSB should enhance contingency planning and crisis preparedness.** In the FSB's crisis management role, the goal is to ensure inter-agency coordination on all aspects of resolution and crisis management. Contingency plans and memoranda of understanding should be prioritized in the first stage, with periodic crisis management tests to be introduced in the medium term.

34. **The recovery planning framework should be aligned with international standards, moving away from the current ad hoc basis.** The authorities should adopt dedicated guidelines on recovery planning, and a supervisory framework should be established for their assessment. In the medium term, it would be prudent to request recovery plans from a larger group of banks, albeit with appropriate proportionality, to increase the banking system's ability to respond to severe distress. Following the enactment of the BRLL, recovery plans should facilitate the transition from supervisory oversight to resolution, thereby enhancing both bank risk management and the CBU's early intervention framework.

35. **The CBU should strengthen triggers for early intervention and refine modalities for placing a bank into resolution, including liquidation.** Supervisory and early intervention measures should occur before the breach of any regulatory thresholds. The authorities should set up an early warning framework to detect bank stress and trigger a timely supervisory intervention. The authorities should refine the resolution triggers to focus on the lack of viability and systemic importance at the point of failure. Additionally, an escalation mechanism should be developed to inform the transition of oversight from the supervisory measures to early intervention and bank resolution and liquidation.

36. **The authorities should prioritize setting up the resolution function following the enactment of the BRLL.** The resolution function should be established as an operationally

independent unit within the CBU, supported by sufficient staffing and robust governance. A phased approach to resolution planning should be developed, first by adopting the regulations implementing the BRLL, then by planning requirement for D-SIBs, and then for all banks (on a proportionate basis allowing for simplified plans for small institutions). In the long term (e.g., over five years), the authorities should communicate Loss Absorption Capacity requirements once the capital requirement in line with the Basel III framework has been adopted, and resolution plans and resolvability assessments have been communicated to banks. In the interim, the authorities should prioritize the operationalization of the transfer tools and bridge bank.

37. The deposit insurance framework should be fully aligned with the International Association of Deposit Insurers principles. The Banking Association representatives in the DGA board should be removed to eliminate any real or perceived conflict of interest. The new legal mandate of DGA should be operationalized to support resolution funding and the backstop mechanism in form of a budget loan from the government. A formal mechanism for backstop funding should be established between the DGA, CBU, and MoEF, with adequate contingency plans developed under the FSB umbrella. The mechanism should provide for prompt allocation of resources to the DGA to support bank resolution and liquidation and to the ex-post Resolution Fund.

38. The ongoing work on setting up an effective ELA framework should continue. Following the adoption of the ELA regulation in December 2024, the CBU is developing internal procedures for ELA's operationalization. These efforts should be complemented by addressing remaining gaps, including (i) extending the ELA time limit from three to six months; (ii) setting a fixed interest rate on ELA at 2 percentage points above the overnight repo facility rate to mitigate moral hazard; (iii) incorporating the possibility of issuing government guarantees for ELA; and (iv) developing a framework for ELA collateral. The authorities should also amend the LCBU to align ELA provision with international good practices.[2]

DEVELOPMENTAL ISSUES

39. Bank privatizations should be renewed, drawing on lessons from the completed privatizations and international experience. Specifically, the authorities should (i) first and foremost, take measures to strengthen the accuracy of asset quality reporting prior to privatization; (ii) adopt greater selectivity in undertaking pre-privatization institutional strengthening, focusing on corporate governance and credit risk management, including via increased transparency; and (iii) as (i) and (ii) take effect, enhance efforts to identify suitable strategic investors with value-additional banking experience.

[2] ELA should be used as a last resort and should: (i) be provided only to solvent and viable banks facing temporary liquidity needs; (ii) be granted at the discretion of the central bank; (iii) be fully collateralized; (iv) comply with clearly defined ELA parameters (including time limits, maturity, volume, and interest rate); and (v) be subject to appropriate conditionality.

40. Over time, state support for priority sectors and financial inclusion should be provided more transparently using market-aligned instruments rather than directed and preferential bank lending programs, which should be gradually phased out. Currently, the exact extent of directed/preferential credit on the balance sheets of banks is not known given the comingling of such lending with commercial credit. There is no public record of the performance of social programs involving directed and preferential credit. To increase transparency about the allocation of directed credit, consideration should be given to establishing a transparent platform offering access to concessional credit for credit-worthy borrowers in priority sectors. Clearly separating in SOCBs' financial reports directed and preferential credit from that provided on commercial terms could help enable stronger credit risk management and would enable identifying areas where policy banks could provide additionality. It would also help track achieved outcomes of directed and preferential funding and address its systemic risks through stringent capital requirements. As regards preferential lending, government support would be provided more effectively and transparently through grants, guarantees, and subsidies as part of standard budget allocations. The current plans to keep systemic SOCBs as policy banks should be reconsidered given the financial risks and costs to the budget relating to those banks.

41. NAPP is a relatively new regulator that would benefit from stronger oversight capacity and enforcement powers. NAPP was established as an independent agency, accountable to the President, and a budget not sourced by the government. However, NAPP's ability to effectively supervise the insurance and capital markets is hampered by low staffing levels, limited sanctioning tools, and weak enforcement powers. In addition, NAPP does not perform on-site supervision, unless an issue is identified through off-site analysis.

42. The regulatory framework for insurance companies needs improvement. In many cases, insurance-specific regulations do not exist and, instead, regulations for joint stock companies are used. This does not consider the specificities of an insurer and its objective of protecting policyholders above all other stakeholders (e.g., shareholders). Adopting insurance-specific regulations on corporate governance, consumer protection and conduct of business, as well as transitioning to a risk-based capital framework (with RBS) would strengthen the insurance sector.

43. Gaps in the regulatory framework for nonbank credit-providing institutions should be closed. There are concerns about credit risk management in microfinance institutions, which have been growing very rapidly (see Figure 2). The CBU should strengthen their on-site supervision and avoid opportunities for regulatory arbitrage. The microfinance banks, the new category of financial institutions, would also require CBU's adequate oversight. Specifically, the CBU should ensure that (i) these banks' business models align with microfinance objectives; (ii) they have adequate credit risk management capacity; and (iii) they do not become a backdoor for weak commercial banks.

44. A formal oversight framework for the payments system remains under development. The 2019 Payment Systems Law empowered the CBU to grant licenses and conduct oversight, but a detailed oversight framework has not yet been enacted. The CBU should put in place a risk-based oversight framework for payment systems, informed by the Principles for Financial Market

Infrastructures (PFMI). The authorities should establish an analogous framework for other financial market infrastructures, such as the Central Securities Depository and the central counterparty.

45. Access to finance by MSMEs could be improved by efforts to reduce lending rates, strengthen oversight, and shift to more market-based instruments. Currently, MSMEs can obtain lending at very high interest rates. Lowering these rates will require efforts to reduce credit risk, ensure full NBFI coverage of credit registry and bureaus, continue with digitalization, and extend the CBU's regulatory perimeter, while strengthening financial literacy and consumer protection. The regulatory framework could be strengthened, including by ensuring proper asset classification. Several government programs distort market dynamics through subsidies, interest rate caps, and prescriptive targets. Market-based MSME instruments, such as partial credit guarantees and credit lines that allow lenders to set interest rates and are open to all eligible financial institutions, could be more effective in scaling access to finance sustainably.

46. Developing the capital market would require progress in meeting several pre-conditions. Macroeconomic conditions are mixed—the fiscal deficit has been declining, public debt is moderate, but inflation remains relatively high. The legal and institutional environment is conducive. However, the sovereign yield curve needs to become a reliable pricing reference. The demand for capital market instruments is severely constrained by the nascent institutional investor base and high deposit rates. A lack of supply constrains corporate securities market development, negatively affected by the dominant role of the state. The authorities should develop a transparent and robust supply side of potential issuers (e.g., SOEs).

AUTHORITIES' VIEWS

47. The authorities welcomed the FSAP findings and broadly agreed with the recommendations. Overall, the authorities plan to integrate FSAP recommendations into their reform strategy and expressed interest in follow-up technical assistance, including on how best to sequence reforms.

48. The CBU noted that it has stepped up its supervision of asset quality and has required banks with high NPLs to implement a timebound plan to reduce them. The CBU also plans to continue strengthening capital and liquidity requirements to further align them with Basel III and is implementing further macroprudential measures on lending to households. On stress testing, they appreciated that results were presented for different banking categories, including D-SIBs, and welcomed the suggestions to strengthen corporate sector monitoring and FX risk.

49. With respect to the macroprudential framework, they agreed with the need to clarify the CBU's financial stability mandate as the financial system grows. They also agreed that the financial stability and crisis management functions of the FSB should be kept separate. Regarding macroprudential tools, the authorities are considering introducing capital buffers. While they understood the rationale for strengthening BBMs, they raised the concern that this would worsen financial inclusion.

50. The authorities also largely agreed on recommendations to operationalize the crisis management framework and ELA. They particularly valued those related to the coordination and collaboration within the CBU and with other financial safety net participants. However, the authorities noted that the implementation of the legal framework concerning deposit insurance and bank resolution will take time.

Table 2. Uzbekistan: Selected Economic Indicators

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
National income											
Nominal GDP (in trillions of Sum)	668	821	996	1,204	1,455	1,733	2,005	2,282	2,577	2,907	3,277
Population (in millions)	33.9	34.6	35.3	36.0	36.9	37.7	38.5	39.3	40.1	41.0	41.8
GDP per capita (in U.S. dollars)	1,960	2,238	2,555	2,849	3,113	3,487	3,805	4,113	4,443	4,805	5,193
Real sector			(Annual percent change)								
GDP at current prices	12.3	22.8	21.3	21.0	20.8	19.1	15.7	13.8	12.9	12.8	12.7
GDP at constant prices	1.6	8.0	6.0	6.3	6.5	5.9	5.8	5.7	5.7	5.7	5.7
GDP deflator	10.6	13.7	14.5	13.8	13.3	12.5	9.4	7.7	6.8	6.7	6.6
Consumer price index (eop)	11.2	10.0	12.3	8.7	9.8	8.4	6.5	5.0	5.0	5.0	5.0
Consumer price index (average)	12.9	10.8	11.4	10.0	9.6	9.0	7.4	5.9	5.0	5.0	5.0
Money and credit			(Annual percent change)								
Reserve money	15.4	28.3	31.4	4.9	9.5	9.2	8.8	8.2	8.0	8.0	8.0
Broad money	17.7	29.7	30.2	12.2	30.6	19.4	16.3	16.1	15.8	15.7	15.6
Credit to the economy	34.4	18.4	21.4	23.2	14.0	19.3	16.0	14.0	13.1	12.9	12.9
Velocity (in levels)	6.0	5.6	5.3	5.7	5.2	5.2	5.2	5.1	5.0	4.9	4.7
			(Percent of GDP)								
Broad money	16.8	17.7	19.0	17.6	19.0	19.1	19.2	19.6	20.1	20.6	21.1
Credit to the economy	42.0	40.5	40.5	41.2	38.9	39.0	39.1	39.1	39.2	39.2	39.3
External sector			(Percent of GDP)								
Current account	-4.6	-6.3	-3.2	-7.6	-5.0	-5.0	-4.8	-4.8	-4.7	-4.7	-4.7
External debt	52.6	51.8	49.2	54.5	57.2	55.8	55.5	55.0	54.5	53.4	53.0
			(Annual percent change)								
Exports of goods and services	-14.6	13.1	27.5	19.5	4.5	12.2	10.8	9.2	8.1	8.6	7.9
Imports of goods and services	-14.9	23.4	27.6	19.6	2.3	10.6	8.9	7.6	7.6	7.5	6.6
Exchange rate (in Sums per U.S. dollar; eop)	10,477	10,838	11,225	12,339	12,920	…	…	…	…	…	…
Exchange rate (in Sums per U.S. dollar; ave)	10,054	10,609	11,047	11,736	12,653	…	…	…	…	…	…
Real effective exchange rate CPI based (2015=100, - = dep)	65.5	65.3	61.8	58.8	55.4	54.2	53.3	52.3	51.4	50.7	50.1
Gross international reserves (in billions of U.S. dollars)	34.9	35.1	35.8	34.6	41.2	43.1	43.2	43.2	43.2	43.2	43.2
Gross international reserves (months of imports)	15.0	11.8	10.1	9.5	10.2	9.8	9.2	8.5	7.9	7.4	6.2
Government finance			(Percent of GDP)								
Consolidated budget revenues 1/	24.0	24.9	28.8	26.7	26.5	26.3	26.4	26.5	26.6	26.7	26.7
Consolidated budget expenditures 1/	27.9	29.9	32.4	31.6	29.7	29.3	29.4	29.5	29.6	29.7	29.7
Consolidated budget balance	-3.9	-5.0	-3.6	-4.9	-3.2	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0
Adjusted revenues 2/	23.1	23.3	27.7	25.9	25.5	25.3	25.5	25.6	25.7	25.8	25.9
Adjusted expenditures 2/	26.0	27.4	31.3	29.9	27.8	27.3	27.8	28.0	28.1	28.1	28.2
Adjusted fiscal balance	-2.9	-4.1	-3.7	-4.0	-2.3	-2.0	-2.3	-2.3	-2.3	-2.3	-2.3
Policy lending	1.0	1.3	0.0	0.9	0.9	1.0	0.7	0.7	0.7	0.7	0.7
Overall fiscal balance	-4.0	-5.4	-3.6	-4.9	-3.2	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0
Total public & publicly guaranteed debt	33.7	31.7	30.5	32.2	32.6	33.3	33.2	32.8	32.6	31.8	31.5
Labor market 3/											
Formal sector employment growth (percent)	3.0	8.1	2.5	3.0	2.9	3.0	3.0	3.0	3.0	3.0	3.0
Working-age population growth (percent)	1.0	1.0	0.9	1.1	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Unemployment rate (percent)	10.5	9.6	8.9	6.8	5.5	5.0	4.5	4.0	3.7	3.4	3.1
Labor migrants (millions)	1.8	1.5	1.9	2.0	1.4	1.4	1.4	1.4	1.4	1.5	1.5

Sources: Country authorities; and IMF staff estimates.

1/ Beginning in 2022, off-budget accounts of ministries and agencies were included in the budget and all privatization receipts are treated as financing.

2/ Adjusted fiscal data are budget data adjusted for financing operations, such as equity injections, policy lending, and privatization receipts before 2022.

Table 3. Uzbekistan: Selected Macroprudential Measures

Type of measure	Description	Date last adjusted
Limit on leverage ratio	The leverage ratio for banks is calculated as the ratio of Tier 1 capital to the total amount of assets*. **Total assets include: total assets + off-balance-sheet items + derivative instruments – (intangible assets, excluding bank software) + investments** +* investments in the capital of other banks). **Investments refer to the total value of investments in the capital of unincorporated economic entities (except for investments made until December 1, 2023, in renewable energy sources). The leverage ratio for the Mortgage Refinancing Company is calculated as the ratio of regulatory capital to the total amount of assets***. ***Total assets include total assets + off-balance-sheet items + derivative instruments – (intangible assets + investments in the capital of legal entities, including debt obligations that constitute the capital of such entities). The minimum leverage ratio is set at 6% for banks and 3 percent for the Mortgage Refinancing Company.	May 2018 (for banks) February 2020 (for Mortgage Refinancing Company)
Limit on distributions	The bank is not allowed to distribute profits by paying dividends to shareholders or rewards to members of the supervisory board, management board, and employees in the following cases: • Non-compliance with prudential standards or violations arising from such distributions. • Insolvency or signs of insolvency resulting from such distributions. • Failure to comply with or inability to address deficiencies specified in the mandatory order of the Central Bank, including those related to information disclosure. • A directive from the Central Bank prohibiting the distribution of profits. Additionally, banks are prohibited from deciding on dividend payments (or announcements) if the value of the bank's net assets is less than the sum of its share and reserve capital. Banks must obtain the Central Bank's approval to distribute profits in the following cases: • If the total amount of dividend payments and rewards to members of the supervisory board, management board, and employees exceeds 10 percent of the bank’s equity capital. • If there is a loss in the current or previous quarter and/or for the financial year.	November 2019

<table>
<tr><th colspan="3">Table 3. Uzbekistan: Selected Macroprudential Measures (continued)</th></tr>
<tr>
<td>Household sector capital requirements</td>
<td>
Effective from January 1, 2025, loans (including microloans) issued to individuals with a debt-to-income ratio of 50 percent or lower, excluding car loans, mortgage loans, and loans issued under family business development or education programs, will have a risk weight of 100 percent.
Effective from January 1, 2025, loans (including microloans) issued to individuals with a debt-to-income ratio above 50 percent, or to those whose ratio cannot be determined, excluding car loans, mortgage loans, and loans issued under family business development or education programs, will have a risk weight of 150 percent.
Starting from January 1, 2025, mortgage loans issued to individuals will have risk weights (35 percent, 50 percent, 100 percent, 150 percent) determined based on the ratio of the loan amount to the collateral, as outlined below:
<table>
<tr><th></th><th>DSTI ≤ 50%</th><th>50%< DSTI or if it is not possible to determine DSTI</th></tr>
<tr><td>LTV < 50%</td><td>35%</td><td>50%</td></tr>
<tr><td>50% ≤ LTV <75%</td><td>50%</td><td>100%</td></tr>
<tr><td>75% ≤ LTV <100%</td><td>100%</td><td>150%</td></tr>
<tr><td>100% ≤ LTV</td><td>150%</td><td>150%</td></tr>
</table>
Starting from January 1, 2025, risk weights (100 percent, 150 percent, 200 percent) for car loans issued to individuals will be determined based on the ratio of the loan amount to the collateral, as outlined below:
<table>
<tr><th></th><th>DSTI ≤ 50%</th><th>50%< DSTI or if it is not possible to determine DSTI</th></tr>
<tr><td>LTV ≤ 75%</td><td>100%</td><td>150%</td></tr>
<tr><td>75% < LTV</td><td>150%</td><td>200%</td></tr>
</table>
The CBU sets risk weights for loans issued under family business development and education programs for individuals, based on prevailing annual market interest rates:

For loans with an annual interest rate of 24 percent or below, the risk weight is 100 percent.
For loans with an annual interest rate between 24 percent and 28 percent, the risk weight is 150 percent.
For loans with an annual interest rate of 28 percent or above, the risk weight is 200 percent.

The objective is to mitigate the increase in household debt burden, reduce credit risk, and enhance the collateralization of loans.
Key indicators for calibration include LTV distributions for mortgage and car loans, changes in the weighted average LTV levels, loan growth rate, debt service ratio, and results from the debt burden survey.
</td>
<td>January 2025</td>
</tr>
</table>

Table 3. Uzbekistan: Selected Macroprudential Measures (continued)

Cap on debt-service-to-income (DSTI) ratio	Starting from January 1, 2025, a DSTI ratio is applied to all types of household loans, with the ratio set at 50 percent. Up to 15 percent of total loans can exceed this limit, but not exceed 100 percent. The objective is to prevent an increase in the household debt burden and reduce the level of credit risk. Key indicators for calibration include the debt service ratio, results from the debt burden survey, and loan growth rates.	January 2025
Cap on loan-to-value (LTV) Ratios	Starting from July 1, 2024, LTVs ratio should not exceed 75 percent for car loans granted by banks to individuals, and LTV ratios should not exceed 80 percent for mortgage loans granted to individuals (excluding mortgage loans issued under state programs). However, up to 15 percent of the total number of car loans and mortgage loans provided to individuals may exceed the respective LTV limits of 75 percent and 80 percent.	July 2024
Restrictions on unsecured loans	The maximum amount of unsecured loans (without collateral) to a single borrower or a group of related borrowers is limited to 5 percent of the bank's Tier 1 capital. The objective is to mitigate key risks associated with large borrowers.	January 2021
FX loans to households	FX loans to individuals are not allowed.	July 2019
Liquidity coverage ratio	LCR is defined as the ratio of highly liquid assets to net outflows over the next 30 days. The LCR should not be less than 100%. Since September 2019, the LCR requirement has been applied separately to both local and foreign currency. Starting in February 2020, the minimum LCR requirement for the Mortgage Refinancing Company is 100 percent.	September 2019 (for banks) February 2020 (for Mortgage Refinancing Company)
Liquid asset ratio	The ratio of high-quality liquid assets (HQLA) to total assets should be no less than 10 percent. This requirement applies to all banks and all currencies. The objective is to ensure that there are sufficient HQLA to mitigate systemic liquidity risks.	June 2020
Instant liquidity ratio	The instant liquidity ratio, based on the national currency, should be at least 25 percent.	March 2020

Table 3. Uzbekistan: Selected Macroprudential Measures (continued)

Net stable funding ratio	Banks must maintain a minimum NSFR of 100 percent in each relevant currency. From February 2020, the minimum NSFR requirement for the Mortgage Refinancing Company has been set at 100 percent.	September 2019 (for banks) February 2020 (for Mortgage Refinancing Company)
Loan to deposit ratio	The Loan-to-Deposit (LTD) ratio of 80 percent is a recommendation, not a mandatory requirement. Banks are free to maintain an LTD ratio greater than 80 percent, if they choose.	November 2015
Reserve requirements (unremunerated)	Reserve requirements: • For deposit obligations in national currency from individuals and legal entities is 4 percent; • For deposit obligations in foreign currency from individuals and legal entities 10.5 percent. These reserves are held in local currency. The objective of these reserve requirements is to reduce dollarization and influence the credit activities of commercial banks and interest rates.	April 2025
Gross foreign exchange positions	The following limits are established for open foreign exchange positions: • Each type of foreign exchange: 10 percent; • Total open foreign exchange positions: 15 percent; • Total for all short foreign exchange positions: 15 percent; • Total for all long foreign exchange positions: 15 percent.	
Interbank exposures	Large exposures to a single counterparty or a group of related counterparties in interbank operations (credits and deposits) should not exceed 25 percent of Tier 1 capital. This measure aims to prevent contagion risks between banks.	January 2021

<table>
<tr><th colspan="3">Table 3. Uzbekistan: Selected Macroprudential Measures (concluded)</th></tr>
<tr><td>Car loans</td><td>1. The risk weights for car loans issued to individuals are determined based on the LTV and DSTI ratios.
The risk weights for car loans issued to individuals by commercial banks, effective from January 1, 2025, are as follows:
<table>
<tr><th></th><th>DSTI ≤ 50%</th><th>50%< DSTI or if it is not possible to determine DSTI</th></tr>
<tr><td>LTV ≤ 75%</td><td>100%</td><td>150%</td></tr>
<tr><td>75% < LTV</td><td>150%</td><td>200%</td></tr>
</table>

2. The share of car loans issued to households within the total loan portfolio should not exceed 25 percent.

The goal is to curb excessive growth in car loans, increase the level of collateralization for these loans, and reduce the concentration risk associated with car loans.

Calibration indicators include: the LTV distribution of car loans, changes in the weighted average LTV, the car loan growth rate, the concentration level of car loans in each bank's loan portfolio, the concentration of outstanding car loans, and the debt service ratio for car loans.</td><td>January 2025</td></tr>
<tr><td>Microfinance</td><td>The total amount of microfinance services (including leasing, guarantees, factoring, and Islamic financing) provided to entrepreneurs must not exceed the amount of microcredit granted.
Microloans must not exceed 25 percent of the loan portfolio.</td><td>February 2024

April 2025</td></tr>
<tr><td>Microcredit</td><td>The maximum amount of micro-loans granted to an individual is 100 million som.
The maximum amount of microcredit granted to entrepreneurs and self-employed individuals is 300 million som.
The total amount of loans, guarantees, and Islamic financing services provided to individuals must not exceed the amount of micro-loans granted.</td><td>February 2024</td></tr>
</table>

Source: CBU, Financial Stability Reports; IMF, macroprudential database.

Table 4. Uzbekistan: Banking Sector Soundness Indicators
(Percent)

	2017	2018	2019	2020	2021	2022	2023	2024
Core FSIs								
Regulatory capital to risk-weighted assets	18.8	15.6	23.5	18.4	17.5	17.8	17.5	17.4
Tier 1 capital to risk-weighted assets	16.5	14.3	20.4	15.2	14.6	14.5	14.1	14.3
Nonperforming loans net of provisions to capital	3.0	4.7	2.6	3.6	13.1	9.0	9.9	9.3
Common Equity Tier 1 capital to risk-weighted assets			20.4	15.2	14.6	14.4	14.1	14.3
Capital to assets (leverage ratio)	10.6	10.3	16.7	13.1	13.2	12.2	13.0	13.3
Nonperforming loans to total gross loans	1.2	1.3	1.5	2.1	5.1	3.5	3.5	3.9
Provisions to nonperforming loans	54.0	46.7	56.7	63.7	45.9	46.6	36.7	45.4
Return on assets	1.9	2.0	2.1	2.2	1.3	2.5	2.6	1.4
Return on equity	17.1	16.2	13.0	10.2	6.1	13.3	14.2	6.6
Interest margin to gross income	32.5	48.4	50.7	54.3	49.0	42.1	40.8	38.3
Noninterest expenses to gross income	59.3	54.4	49.5	45.1	47.1	46.5	46.2	51.9
Liquid assets to total assets	23.6	13.6	13.9	15.4	18.6	21.5	16.2	18.7
Liquid assets to short-term liabilities	55.7	41.2	40.3	39.9	46.9	47.3	37.1	42.6
Liquidity coverage ratio			208.5	224.5	189.6	211.6	164.8	193.8
Net stable funding ratio			112.8	109.9	115.4	115.6	111.8	115.3
Net open position in foreign exchange to capital	14.0	2.3	5.9	4.0	6.0	1.7	2.8	-0.4
Additional FSIs								
Large exposures to capital			165.2	223.9	221.1	223.1	183.7	181.1
Gross asset position in financial derivatives to capital			0.2	0.2	0.2	0.2	0.1	0.2
Gross liability position in financial derivatives to capital			0.1	0.2	0.3	0.4	0.4	0.6
Trading income to total income			9.5	9.9	12.7	25.0	19.2	23.2
Personnel expenses to noninterest expenses			46.1	45.2	43.4	34.6	35.6	30.2
Customer deposits to total (noninterbank) loans			36.0	35.5	42.2	47.8	46.9	53.5
FX loans to total loans			47.1	49.2	49.2	46.7	44.1	42.8
FX liabilities to total liabilities			58.1	59.7	57.5	55.4	52.5	49.9
Residential real estate loans to total gross loans			9.5	10.1	10.9	11.7	12.1	12.4

Sources: IMF Financial Soundness Indicators, CBU.

Annex I. Uzbekistan: Risk Assessment Matrix

Annex I. Table 1. Uzbekistan: Risk Assessment Matrix

Source of Risk	Likelihood in next 1–3 years	Expected Impact on Financial Stability if Threat is Realized
Global conjunctural risks		
Intensification of Regional Conflicts Escalation or spread of the conflict in Gaza and Israel, Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	High	An intensification of the conflict in Ukraine could have a significant impact on trade, remittances, capital flows, migrant flows, and gold prices. The transmission channels may involve knock-on effects to the financial sector, including for example liquidity risk and currency induced credit risk.
Commodity price volatility Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability.	High	Uzbekistan's economy is sensitive to changes in the prices of gold (exports, FX reserves), copper (exports), oil (imports), and natural gas (imports). Adverse commodity price movements could worsen the trade balance, fiscal revenues, and contribute to uncertainty which would dampen investment and GDP growth, raising credit risk.
Global growth surprises Slowdown: Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or deeper than envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in EMDEs.	Medium	Supply disruptions, rising corporate bankruptcies could bring down growth and increase credit risk.
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	High	Similar to the impact described in the "intensification of regional conflicts" block above.
Domestic and structural risks		
Weakening of bank balance sheets With still significant policy lending, returns on lending and bank profits decline while NPLs rise. Bank balance sheets weaken, credit availability diminishes and the cost of borrowing increases. Banks require recapitalization.	Medium	Credit growth has moderated, even as growth remains strong. Questions around asset quality remain, especially in SOCBs. Risks stem from directed/preferential lending, restructured loans, dollarization of corporate loans, and overstretched households.

Annex II. Uzbekistan: Stress Testing Approach

Annex II. Table 1. Uzbekistan: Stress Testing Approach	
Domain	**Top-down stress test approach by the FSAP Team**
Bank solvency stress test	
Institutional perimeter	• All 36 banks in the country.
Data and starting position	• Bank-by-bank supervisory data on a solo basis. • Cut-off date: End-September 2024.
Methodology and risk factors	• The main objective was to estimate impact on regulatory capital through Profit & Loss (P&L) for individual banks under different scenarios. • P&L was estimated through three main risks: credit, interest rate and market risks. • For credit risk, new flow of nonperforming exposures and loss provisions was estimated using satellite models, linking macro financial variables with credit risk parameters. • Interest rate risk linked interest sensitive assets and liabilities to the net interest margin based on projections of lending and funding rates, estimated using satellite models. • For market risk, the projected interest rate was used to estimate security gains/losses in the trading and banking book separately, and projected exchange rates were used to estimate FX gains/losses in open positions. • Other income statement items were projected using a simplified approach based on predicted growth in the balance sheet. • Estimates from historical data were based on quarterly data from 2011Q4.
Scenarios	• Baseline scenario was aligned with IMF October 2024 World Economic Outlook forecasts for the region. • One adverse scenario addressing the most relevant risks and vulnerabilities confronting the financial system, including a global economic downturn, triggering depreciation of the som and a decline in commodity prices such as gold, cotton, and copper. • Horizon: 3 years.
Sensitivity analyses	• The reported data likely under-report the true quality of loan books, and the calculations were adjusted to use IFRS 9 NPLs instead of domestically reported NPLs, to estimate a more accurate baseline capitalization as a starting point in the stress tests. • Sensitivity analysis on currency-induced credit risk was conducted assuming a 30 percent depreciation.
Hurdle rates	• National regulations on total regulatory capital, Tier 1 capital, and leverage ratios (differentiated between SOCB, foreign and private domestic banks, with a special attention to the D-SIBs).
Output presentation	• Evolution of aggregate capital ratios, and key drivers. • Number/share of banks below the hurdle rates. • Aggregate capital shortfall.

Annex II. Table 1. Uzbekistan: Stress Testing Approach (concluded)	
Domain	**Top-down stress test approach by the FSAP Team**
Bank liquidity stress test	
Institutional perimeter	• All banks in the country.
Data and starting position	• Bank-by-bank regulatory and supervisory data on a solo basis. • Cut-off date: End-September 2024.
Methodology and risk factors	• A liquidity cash flow analysis aligned with the LCR framework was performed, in total and separately for som and foreign currency respectively.
Scenarios	• Baseline scenario was based on parameters/haircuts from LCR. • One country specific adverse scenario was executed with stressed parameters derived from a stress similar to the adverse scenario in the solvency stress test. • Horizon: 1 year.
Sensitivity analyses	• Outcomes were recalculated assuming a 30 percent domestic currency depreciation.
Hurdle rates	• Zero for the cumulated net cash flow position for all time buckets up to one year.
Output presentation	• Evolution of aggregate cumulated net cash flow positions. • Number/share of banks below the hurdle rates.