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CHALLENGES AND PROSPECTS FOR IMPROVING COMMERCIAL BANK PRIVATIZATION IN THE REPUBLIC OF UZBEKISTAN

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Abstract: The privatization of commercial banks is a central component of financial sector reforms in transition economies. In the Republic of Uzbekistan, banking sector privatization has been actively promoted as part of broader economic liberalization and market-oriented reforms. This article analyzes the current state of the commercial bank privatization process in Uzbekistan, identifies key structural and institutional challenges, and proposes directions for its improvement. Using institutional and comparative analysis, the study argues that effective privatization requires enhanced corporate governance, improved transparency, pre-privatization financial restructuring, and the attraction of strategic investors. The findings contribute to the discussion on banking sector reforms in emerging economies.

Keywords: bank privatization, commercial banks, financial sector reform, Uzbekistan, corporate governance.

1. Introduction

The transformation of the banking sector is a crucial prerequisite for sustainable economic development in transition economies. Since independence, the Republic of Uzbekistan has implemented gradual reforms aimed at reducing state participation in the economy and strengthening market institutions. In recent years, special attention has been paid to the privatization of commercial banks, which remain largely dominated by the state.

Despite progress, the privatization process faces several challenges, including limited competition, institutional weaknesses, and insufficient investor confidence. Improving the effectiveness of commercial bank privatization is therefore essential for enhancing financial intermediation, increasing efficiency, and supporting private sector development. The purpose of this article is to analyze the existing privatization framework and propose policy-oriented recommendations for its improvement.

2. Literature Review

Theoretical and empirical studies emphasize that bank privatization can improve efficiency, reduce political interference, and strengthen financial stability when supported by appropriate institutional frameworks. According to transition economy literature, successful privatization depends on transparency, regulatory quality, and the presence of strong corporate governance mechanisms.

Studies focusing on post-socialist economies highlight that partial or poorly designed privatization may fail to deliver expected outcomes, especially when state influence persists. Recent research on Central Asian economies indicates that banking



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reforms remain incomplete, with state-owned banks continuing to dominate credit allocation. In this context, Uzbekistan provides an important case for analyzing the effectiveness of bank privatization policies.

3. Methodology

The study employs a qualitative research methodology based on institutional analysis and comparative review. Policy documents, regulatory frameworks, and reform strategies related to bank privatization in Uzbekistan are examined. In addition, comparative insights from other transition economies are used to identify best practices applicable to the Uzbek context.

The analysis focuses on structural characteristics of the banking sector, the role of the state, and the mechanisms used in the privatization process. This approach allows for the identification of systemic constraints and potential improvement pathways.

4. Results

4.1 Current State of Commercial Bank Privatization

The banking sector of Uzbekistan is characterized by a high concentration of state ownership. Several large commercial banks play a dominant role in lending, particularly to state-owned enterprises and priority sectors. Although privatization programs have been announced, their implementation has been gradual and cautious.

Initial steps have included partial share sales, preparation of banks for privatization, and engagement with international financial institutions. However, full-scale privatization has been limited, and state influence over management decisions often remains significant.

4.2 Key Challenges

The analysis identifies several constraints affecting the privatization process:

- **Insufficient transparency** in financial reporting and asset valuation;
- **Weak corporate governance structures**, including limited independence of boards;
- **High levels of non-performing or policy-driven loans**, reducing investor attractiveness;
- **Limited participation of strategic foreign investors**, partly due to perceived regulatory risks;
- **Underdeveloped capital markets**, restricting alternative privatization mechanisms.

These factors collectively reduce the effectiveness of privatization and limit its impact on banking sector performance.

5. Discussion

The findings suggest that privatization alone is insufficient to improve banking sector efficiency without complementary institutional reforms. International experience demonstrates that successful bank privatization is closely linked to regulatory independence, market discipline, and strong governance standards.



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For Uzbekistan, a phased privatization strategy combined with pre-privatization restructuring appears most appropriate. Reducing state-directed lending, improving risk management practices, and aligning banks with international financial reporting standards can significantly enhance investor confidence. Moreover, attracting strategic investors rather than purely financial buyers can facilitate knowledge transfer and modernization of banking operations.

6. Conclusion

The improvement of the commercial bank privatization process in the Republic of Uzbekistan is a critical task within the broader framework of economic reforms. While progress has been made, significant structural and institutional challenges persist. Addressing these issues requires a comprehensive approach that integrates privatization with governance reforms, transparency enhancement, and market development.

Effective implementation of these measures can strengthen the banking system, reduce fiscal risks, and support sustainable economic growth. The experience of Uzbekistan may also provide valuable insights for other transition economies pursuing similar reform paths.

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