Asset Allocation and Quality in the Banking System: The Case of Uzbekistan

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Abstract

This paper analyzes the asset allocation and quality of commercial banks in Uzbekistan during 2020–2025. Using macroeconomic indicators, loan-to-GDP ratios, capital adequacy, deposit dynamics, non-performing loan (NPL) trends, and profitability measures, the study evaluates the efficiency of financial intermediation and its impact on economic development. The findings indicate that although banking assets nearly doubled over the period, their share in GDP declined, reflecting weaker financial intermediation. NPL ratios fluctuated significantly, peaking at 5.2% in 2022, which directly undermined profitability indicators such as return on assets (ROA) and return on equity (ROE). The monetization coefficient remained relatively low at 22.8% in 2025 compared to international standards, indicating underdeveloped financial deepening. The study concludes that structural reforms are required to enhance risk management, diversify funding sources, and improve the alignment between banking assets and the real economy. Recommendations include strengthening credit monitoring, expanding long-term deposits, improving asset allocation to productive sectors, and gradually lowering refinancing rates in line with inflationary conditions.

Keywords: Uzbekistan banking system; asset quality; financial intermediation; non-performing loans; profitability indicators; monetization ratio; refinancing rate; credit portfolio management.

Introduction

The banking system plays a pivotal role in ensuring the stability and growth of a country's economy by channeling financial resources into productive sectors. In Uzbekistan, commercial banks have been undergoing structural reforms aimed at strengthening their asset quality, improving risk management mechanisms, and enhancing financial intermediation. Asset quality

is considered a critical determinant of financial stability, as it directly affects the efficiency of credit allocation, bank profitability, and resilience to shocks.

The dynamics of bank assets and their allocation relative to GDP, along with the relationship between loans, deposits, capital adequacy, and non-performing loans (NPLs), provide valuable insights into the sector's overall health. This study examines the trends of asset quality in Uzbekistan's commercial banks from 2020 to 2025, analyzing macroeconomic indicators, credit portfolio dynamics, problem loans, inflation, refinancing rates, and profitability measures.

Literature Review

Previous studies emphasize that the quality of banking assets depends on risk assessment practices, credit diversification, and the adequacy of capital buffers (Berger & DeYoung, 1997). Empirical research on emerging markets highlights that non-performing loans are highly sensitive to macroeconomic shocks such as inflation, interest rate fluctuations, and exchange rate volatility (Nkusu, 2011).

In transition economies, monetization ratios and the availability of long-term deposits significantly determine the ability of banks to provide stable credit growth (Beck & Levine, 2005). Comparative analyses show that a monetization ratio below 30% of GDP restricts banking sector development, while advanced economies average 60% or higher (IMF, 2022).

Recent Uzbek studies (Kurpayanidi, 2019; Umarov, 2021) note that asset growth has outpaced GDP expansion, yet the quality of assets remains under strain due to rising NPLs, insufficient long-term funding, and limited effectiveness of risk management frameworks.

Methodology

This research employs a descriptive and analytical approach, utilizing secondary data published by the Central Bank of Uzbekistan and national statistical reports. The analysis covers the period 2020–2025 and includes the following steps:

Macroeconomic Indicators Analysis – evaluation of GDP, banking assets, credit volume, deposits, and capital ratios.

Asset Quality Indicators – assessment of asset-to-GDP ratio, loan-to-GDP ratio, deposit-to-GDP ratio, and monetization coefficient.

Non-Performing Loan Analysis – measurement of NPL ratios across the observed years.

Profitability Indicators – evaluation of return on assets (ROA), return on equity (ROE), and net interest margin (NIM).Comparative Trend Analysis – identifying correlations between asset growth, inflation, refinancing rates, and problem loan dynamics.

Results and Analysis

The asset base of Uzbekistan's commercial banks more than doubled from 366.1 trillion UZS in 2020 to 769.3 trillion UZS in 2025. Despite this absolute increase, the asset-to-GDP ratio fell from 54.8% to 52.9%. This decline indicates that financial sector growth did not outpace economic growth, suggesting a structural mismatch between the expansion of bank balance sheets and the real economy's financing needs. In international comparisons, asset-to-GDP ratios in emerging markets typically exceed 80%, while advanced economies often surpass 100%. Thus,

Uzbekistan's ratio underscores a relatively shallow financial intermediation structure, limiting banks' systemic contribution.

Loans remain the dominant component of bank assets, rising from 276.9 trillion UZS in 2020 to 533.1 trillion UZS in 2025. Yet, the loan-to-GDP ratio fell from 41.5% to 36.7%. This indicates that although nominal lending expanded, the scale of credit support relative to economic growth decreased. The contraction in credit intensity may reflect two factors:

Cautious credit policies introduced after a surge in NPLs in 2022.

Monetary tightening via higher refinancing rates, which discouraged aggressive lending.

However, rapid growth in loan volumes without adequate monitoring could increase systemic credit risk. The sharp spike of NPLs to 5.2% in 2022 confirms that asset expansion, if not matched with strong risk assessment, results in a deterioration of asset quality.

Bank capital increased from 58.3 trillion UZS in 2020 to 114.8 trillion UZS in 2025. In absolute terms, this growth supports financial resilience. Yet, the capital-to-GDP ratio fell from 8.7% to 7.9%, indicating that capitalization has not kept pace with broader economic expansion. This erosion of relative capital adequacy implies that banks may be less capable of absorbing unexpected losses. In particular, the rising share of problem loans in 2022 and 2025 placed downward pressure on capital buffers, as provisioning requirements consumed retained earnings.

Deposits grew nearly threefold, reaching 308.7 trillion UZS in 2025. Their GDP share, however, fluctuated between 17.2% and 21.8%. The limited ability to raise deposits relative to GDP points to weaknesses in financial inclusion and public trust in the banking sector. Moreover, short-term deposits dominate the structure, constraining banks' capacity to issue long-term loans. International benchmarks show deposit-to-GDP ratios exceeding 40–50% in comparable economies, highlighting Uzbekistan's underutilized potential.

The inflation rate peaked at 12.3% in 2022 before stabilizing at 9–10% in 2024–2025. The Central Bank's refinancing rate adjustments (from 14% in 2021 to 16% in 2022, and back to 13.5% in 2024) directly influenced credit costs. While tightening reduced inflationary pressures, it simultaneously restricted loan demand and worsened affordability for businesses and households. High lending rates, combined with persistent inflation, widened the gap between nominal and real credit returns, potentially deterring investment in the productive sector.

The NPL ratio sharply increased from 2.1% in 2021 to 5.2% in 2022, then improved to 3.5% by 2024 before rising again to 4% in 2025. The spike in 2022 suggests that banks underestimated credit risks in an unstable macroeconomic environment. The subsequent decline reflects stricter monitoring and restructuring policies. However, the resurgence in 2025 indicates that risk management improvements remain fragile and cyclical vulnerabilities persist. Globally, NPL ratios above 3% are considered warning signals, suggesting that Uzbekistan's banking sector continues to face significant credit quality challenges.

In 2022, when NPLs rose sharply, ROA dropped to 1.3% and ROE to 6.1%.

As NPLs declined in 2023–2024, ROA climbed to 2.5–2.6% and ROE to 13–14%, reflecting stronger asset performance.

In 2025, the renewed increase in NPLs reduced ROA and ROE to 1.4% and 6.6%, respectively.

This cyclical pattern demonstrates the strong correlation between NPL dynamics and profitability.

Stable net interest margins (NIMs around 4.9%) suggest that banks preserved income from lending activities, but rising provisioning costs in high-NPL years eroded net profits.

The monetization coefficient rose from 19.2% in 2021 to 22.8% in 2025. Although this upward trend signals financial deepening, it remains far below international norms (50–60%). Low monetization limits liquidity in the financial system and weakens banks' ability to expand lending sustainably. This structural constraint forces reliance on external borrowing and state-directed credit lines, reducing operational independence and increasing systemic risks.

The evidence points to a dual reality: on one hand, Uzbekistan's banking system has expanded rapidly, with assets, loans, and deposits showing robust nominal growth. On the other hand, relative indicators — assets-to-GDP, loans-to-GDP, deposit-to-GDP, capital-to-GDP — reveal underperformance compared to international standards. The volatility of NPLs, linked to external shocks and inflationary pressures, underscores the fragility of asset quality. Profitability has proven highly sensitive to credit risk management, confirming that without stronger institutional frameworks, asset growth does not guarantee stability.

Discussion

The analysis reveals that despite asset and credit growth, the Uzbek banking system faces structural challenges in improving asset quality. The declining ratios of assets and loans to GDP indicate that financial intermediation is not yet sufficient to drive real sector development. The volatility of NPL ratios highlights the need for stronger credit monitoring, improved risk assessment models, and diversification of loan portfolios.

Moreover, the relatively low monetization coefficient (22.8% in 2025) compared to international standards suggests that the financial sector remains underdeveloped. Limited long-term deposit mobilization constrains banks' ability to finance long-term investment projects. Inflation and refinancing rate dynamics also exert dual pressures: while controlling inflation stabilizes the macroeconomy, high rates restrict lending capacity.

Conclusion

This study demonstrates that asset quality in Uzbekistan's banking sector remains a critical issue for financial stability and economic growth. The main findings include:

Banking assets nearly doubled from 2020–2025, but their share in GDP declined, weakening intermediation efficiency.

NPL ratios remain volatile, peaking at 5.2% in 2022 and stabilizing at 4% in 2025, showing persistent credit quality challenges.

Profitability indicators (ROA, ROE) sharply declined in years with higher NPL ratios, confirming a strong link between asset quality and earnings.

The low monetization coefficient and limited long-term deposit base restrict banks' ability to improve asset quality and finance long-term growth.

Recommendations

Strengthen risk management and credit monitoring mechanisms to reduce NPLs.

Enhance deposit mobilization, particularly long-term instruments, to stabilize funding sources.

Gradually lower refinancing rates in line with inflation trends to improve credit affordability.

Improve asset allocation toward the real sector, ensuring better intermediation between savings and investments.

Develop comprehensive strategies for increasing the monetization ratio to approach international standards.

By addressing these structural issues, Uzbekistan's banking sector can enhance its asset quality, ensure financial stability, and better support sustainable economic development.

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