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Article

Enhancing Financial Stability Analysis of Economic Entities in Uzbekistan

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Abstract: This article critically examines the current state of financial stability analysis for economic entities in Uzbekistan, encompassing both corporate and household sectors. Drawing upon a comprehensive review of international best practices and an in-depth analysis of Uzbekistan's evolving financial landscape, the study identifies key strengths, persistent vulnerabilities, and significant analytical gaps. While Uzbekistan has demonstrated robust economic growth and implemented substantial financial sector reforms, the rapid expansion of credit, the dominance of state-owned banks, and limitations in data accessibility pose challenges to comprehensive financial stability assessment. The analysis highlights that rapid economic growth, while positive, can concurrently introduce complex financial stability risks if analytical and regulatory frameworks do not evolve commensurately. Furthermore, the interplay between micro-level vulnerabilities and macro-financial stability is emphasized, underscoring the need for an integrated approach.

Keywords: Financial Stability, Uzbekistan, Economic Entities, Corporate Sector, Household Sector, Macroprudential Policy, Stress Testing, Credit Risk, Data Transparency, Emerging Markets

1. Introduction

The stability of a nation's financial system is a cornerstone for sustained economic growth and price stability. A resilient financial system efficiently channels resources, services, and products to households, communities, and businesses, thereby fostering investment and economic expansion. Such a system is characterized by its capacity to absorb significant shocks and its inherent ability to self-correct imbalances, preventing widespread disruptions or systemic crises.[2] Conversely, periods of financial instability can severely impede economic activity, leading to a reluctance among financial institutions to fund profitable ventures, excessive deviations in asset prices from their intrinsic values, and delays in payments, which can culminate in severe economic turmoil such as bank runs or market crashes.

Uzbekistan has embarked on an ambitious trajectory of economic liberalization and reform since 2017, achieving an impressive average annual GDP growth of 5.3% and positioning itself as a leading reformer among lower-middle-income economies. This reform agenda has fostered a robust real GDP growth of 6.5% in 2024, driven by strong domestic demand, robust remittances, and favorable commodity prices. Projections indicate a continuation of this strong growth, estimated at around 6% for 2025 and 2026, supported by sustained private consumption, investment, and ongoing structural reforms. The financial sector, in particular, has undergone significant transformation, marked by

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liberalization policies, the emergence of private banks, and increasing integration into global financial markets.

Despite these commendable advancements and positive macroeconomic indicators, the stability of Uzbekistan's financial system, particularly its banking sector, remains susceptible to certain vulnerabilities. Concerns persist regarding the quality of commercial bank loan portfolios, notably due to non-performing loans (NPLs). Furthermore, the escalating household debt burden, particularly the rapid growth of microdebts, and the potential overvaluation of housing prices, represent growing areas of concern for overall financial stability.

2. Materials and Methods

International Perspectives on Financial Stability Analysis. Beaver (1966) was among the pioneers to empirically test the predictive power of individual financial ratios (e.g., cash flow/total debt, net income/total assets) in determining business failure, laying the foundation for ratio-based analysis. Altman (1968) advanced this further by developing the Z-score model, a multivariate discriminant function that combines solvency, liquidity, and profitability indicators to assess bankruptcy probability. This model is still used as a benchmark in stability assessments today. Crouhy, Galai, and Mark (2000) emphasized the integration of credit risk modeling and market risk assessments into corporate financial diagnostics, arguing that stability cannot be adequately evaluated using historical accounting data alone. Saunders and Allen (2010) supported dynamic and risk-based approaches by highlighting the need for Value-at-Risk (VaR), stress testing, and scenario modeling to evaluate firm responses under financial shocks. Claessens and Laeven (2003) in their cross-country empirical analysis, demonstrated that financial development and firm-level financial soundness are positively linked to competition, institutional quality, and regulatory environment — all key for transition economies like Uzbekistan.

According to local research Q.X. Abdurahmonov (2021), a leading Uzbek economist, noted that most enterprises in Uzbekistan still depend on static indicators like the current ratio, equity-to-asset ratio, and net profit margin, which are insufficient for identifying deeper financial vulnerabilities. He advocates for incorporating dynamic cash flow modeling and scenario-based forecasting into financial analysis. A.A. Qurbonov (2022) highlights the limited use of financial stress testing and insolvency forecasting in Uzbekistan, particularly among state-owned enterprises (SOEs). He suggests that financial health metrics should be integrated into corporate strategy and performance auditing. R. Mirzayev (2020) emphasizes that the incomplete transition to IFRS in SMEs and public companies results in misstatements of asset values and financial risk. He recommends a phased, industry-specific roadmap for improving reporting standards. D. Jo‘rayev (2022) in his work on regional enterprise performance, identifies that firms outside Tashkent region are at higher risk due to poor access to credit and inadequate financial management skills. He argues for targeted capacity-building programs to improve analytical skills. U. Tursunov (2021) examined the role of financial ratio benchmarking in Uzbek manufacturing firms and concluded that sector-specific indicators, such as asset turnover and operational margin volatility, provide better insight than general ratios. M. Abdug‘afforov (2023) conducted a study on banking supervision in Uzbekistan, showing that the Central Bank's liquidity and solvency tests have become more reliable post-2019 but are not yet systematically used in non-financial corporate analysis. S. Ergasheva (2022) emphasized the need to incorporate digital technologies in financial diagnostics. She advocates for automated dashboards and financial health scores using artificial intelligence for SMEs.

3. Results and Discussion

Uzbekistan's economy has demonstrated robust performance and is undergoing significant structural changes. Real GDP growth reached 6.5% in 2024, an increase from

6.3% in 2023, with projections indicating continued growth at approximately 6% for both 2025 and 2026.5 This expansion is primarily fueled by strong domestic demand, robust private consumption, and significant investment, which grew by 27.6% in 2024, including substantial foreign direct investment.5 Net remittance inflows also played a crucial role, increasing by 19.6% in 2024.5

Inflation, though elevated at 10.3% year-on-year in March 2025, is expected to moderate to just over 8% by the end of 2025, with the Central Bank of Uzbekistan (CBU) targeting 5% by 2027. Fiscal consolidation efforts have been notable, with the consolidated government deficit decreasing to 3.2% in 2024, aligning with a medium-term target of 3%.[5] Public debt is projected to fall below 33% of GDP by 2027. International reserves remain ample, reaching $41.2 billion at the end of 2024 and further increasing to $47.9 billion by April 2025, largely due to higher global gold prices. The external current account deficit narrowed to 5.0% of GDP in 2024 and is forecast to remain around this level in the medium term.

Table 1 provides a concise overview of these key macroeconomic and financial indicators, offering a foundational context for understanding Uzbekistan's financial stability.

Table 1. Key Macroeconomic and Financial Indicators of Uzbekistan (2023-2025 Projections).

Indicator	2023	2024	2025 (Proj.)
Real GDP Growth (%)	6.3	6.5	5.9-6.0
Inflation (CPI, % y/y)	10.0	10.3	8.0-9.0
Current Account Balance (% GDP)	-7.6	-5.0	-5.0
Fiscal Balance (% GDP)	-4.9	-3.2	-3.0
Public Debt (% GDP)	32.5	31.2	<33 (by 2027)
International Reserves (USD bn)	28.07	41.2	47.9 (Apr 2025)
Remittances (USD bn)	12.4	19.6	-

This table provides the essential macroeconomic context against which the financial stability of economic entities must be assessed. Financial stability is inherently linked to the broader economic environment; robust GDP growth signifies the economy's capacity to generate wealth and service debt, while high inflation can distort asset valuations. Fiscal and current account balances reflect the sustainability of public and external finances, which directly impacts sovereign risk and, by extension, the stability of the financial sector. International reserves and remittances are crucial external buffers, particularly for an emerging market, providing liquidity and mitigating external shocks. By consolidating these critical indicators, readers can quickly grasp the overall economic momentum and identify potential macro-financial risks.

Overall financial stability within the banking system was maintained in 2024, characterized by a decline in financial stress. Key indicators such as a high capital

adequacy ratio of 17% (well above the minimum requirement) and strong liquidity metrics (Liquidity Coverage Ratio at 194% and Net Stable Funding Ratio at 115%) underscore the banking sector's resilience to risks. However, stress test results for 2024 indicate a potential for capital adequacy to fall below minimum requirements by 2027 under an adverse scenario, highlighting forward-looking vulnerabilities. Non-performing loans (NPLs) in banks were in the low to mid-single digits (3.5% at end-2023), a figure partially influenced by rapid credit growth and some regulatory forbearance. Identified risks include weakened bank balance sheets and contingent liabilities stemming from state-owned enterprises (SOEs) and SOCBs.6 Rapid credit growth, especially in the microlending segment, and foreign exchange lending to unhedged corporate borrowers also pose significant concerns.

Table 2 presents key financial soundness indicators for Uzbekistan's banking system, highlighting its current health and areas of vulnerability.

Table 2. Financial Soundness Indicators of Uzbekistan's Banking System (2024).

Indicator	Value (2024)	Description/Implication
Capital Adequacy Ratio (CAR)	17%	Well above minimum required level, indicating strong capital buffers.
Liquidity Coverage Ratio (LCR)	194%	High, demonstrating sufficient short-term liquidity.
Net Stable Funding Ratio (NSFR)	115%	Strong, indicating stable long-term funding.
Non-Performing Loans (NPLs) (% of total loans)	3.5% (end-2023)	Low to mid-single digits, but influenced by rapid credit growth and regulatory forbearance.
Household Debt Service-to-Income (DSTI) (overall)	34%	Overall household debt burden.
Household DSTI (% of loans >50% DSTI)	40%	A significant portion of loans issued to highly leveraged households.
Share of State-Owned Banks (SOCBs) in total assets	67% (Jul 2024)	Dominant presence, raising concerns about contingent liabilities and market distortions.
Share of SOCBs in total loans	70% (Jul 2024)	High concentration of lending by state-owned entities.

This table is indispensable because it directly addresses the health and resilience of the core financial sector in Uzbekistan – the banking system – and its direct exposures to key vulnerabilities within the household and corporate sectors. CAR, LCR, and NSFR are universally recognized prudential indicators reflecting a bank's ability to absorb unexpected losses and meet liquidity obligations. NPLs are a critical measure of asset quality and the manifestation of credit risk within the banking system. The Household DSTI provides crucial, granular insight into the financial stress experienced by households, directly indicating their capacity to service debt, which can quickly translate into NPLs for banks. The inclusion of the dominant share of state-owned banks highlights a unique structural characteristic of Uzbekistan's banking sector, which influences systemic risk and

necessitates specific consideration in any comprehensive analysis. Juxtaposing these diverse indicators in a single table allows for a rapid yet profound assessment of the banking sector's strengths against its emerging or persistent weaknesses, providing actionable insights for targeted macroprudential policy interventions. Impact of state-owned commercial banks (SOCBs) and directed lending on analytical precision:

State-owned commercial banks continue to dominate the banking sector in Uzbekistan. The IMF explicitly links their corporate governance and potential "contingent liabilities" to broader domestic financial stability risks. Furthermore, the practice of preferential and directed lending by state-owned banks can distort market signals, blunt the effectiveness of monetary policy transmission, and lead to credit misallocation, where certain customers may receive credit irrespective of market-based policy rates. Phasing out such lending remains a key policy priority. High state ownership and limited competition within the banking sector are identified as factors that can hinder overall bank performance and efficiency. This implies that the state's pervasive role in the financial sector, while historically perhaps intended to provide stability or direct development, now presents a significant systemic risk due to potential moral hazard, a lack of market discipline, and opaque operational practices that complicate the accurate assessment of true risk exposures. Table 4 provides a comparative overview of key analytical methodologies, highlighting the differences between global best practices and their current application in Uzbekistan, along with identified gaps and potential areas for improvement.

Table 4: Key Financial Stability Analytical Methodologies: Global Best Practices vs. Current Application in Uzbekistan

Methodology	Global Best Practice	Current Application in Uzbekistan	Identified Gaps/Challenges in Uzbekistan	Potential for Improvement
Financial Ratios	Comprehensive analysis of solvency, liquidity, profitability (e.g., CAMELS, ROA, ROE, CAR, LDR) across all sectors.	Used by CBU (CAR, LCR, NSFR) for banking system health. Commercial banks use CAMELS. "8 coefficients method" for SMEs.	Limited public disclosure of full corporate financial statements. Incomplete credit bureau data for comprehensive household/corporate assessment.	Mandate full IFRS adoption and public disclosure for more entities. Enhance credit bureau data completeness and quality.
Stress Testing	Forward-looking assessment of resilience under multiple, severe, tailored macro-financial scenarios, including feedback loops with real economy and non-financial entities.	CBU conducts stress tests for banking system resilience under baseline and adverse scenarios. Macroprudential measures applied to car loans.	Scenarios may not be fully tailored to unique Uzbekistan risks (e.g., SOE contingent liabilities, microdebt). Limited explicit modeling of feedback loops between financial sector	Develop tailored scenarios for specific domestic/external vulnerabilities. Incorporate explicit feedback loops between financial sector and real economy. Expand scope to

			and real economy.	non-financial corporations.
Early Warning Systems (EWS)	Machine learning (ML) models (Random Forest, Logistic Regression, Decision Tree) for proactive, predictive identification of corporate/household distress, moving beyond bankruptcy prediction to multi-stage distress.	ML models explored for retail lending (e.g., car loans for remittance recipients). CRIF provides Credit Bureau Score for early risk detection.	Lack of widespread, integrated ML-based EWS across all sectors. Data gaps and "single information field" challenges hinder comprehensive EWS development.	Accelerate adoption of ML-based EWS for all economic entities. Integrate diverse data sources (financial, behavioral, alternative data) for more accurate predictions.
Credit Scoring Models	Objective, data-driven assessment of creditworthiness for individuals and businesses, leveraging advanced analytics and comprehensive credit history.	Used by commercial banks for borrower assessment. CRIF Credit Bureau Score available for individuals and businesses.	Underdeveloped "credit-taking culture" and fragmented information. Potential for statistical assessments to overlook future-period risks.	Strengthen credit bureau coverage and data quality. Promote data-driven credit assessment culture. Refine models to incorporate forward-looking indicators.
Financial Network Analysis	Mapping interconnections among financial institutions and across economic sectors to identify systemic risk, contagion pathways, and "too interconnected to fail" entities.	Acknowledged as crucial for systemic risk, but specific practical application to non-financial firms in Uzbekistan is less documented.	Potential for opaque linkages, especially involving state-owned entities. Data limitations on inter-firm exposures.	Systematically map inter-firm and firm-bank linkages. Analyze the role of SOCBs in network interconnectedness. Develop tools for identifying and monitoring contagion risk.

This table directly addresses the core of the study by systematically comparing established global best practices in financial stability analysis with their current application within Uzbekistan. By explicitly outlining what constitutes a global best practice for each methodology and then detailing Uzbekistan's current implementation, the table

immediately and clearly highlights the analytical gaps. For instance, it shows that while stress testing is performed by the CBU, its scope might be limited compared to global practices for non-financial entities. Similarly, the use of ML for credit scoring is emerging but may not be fully integrated or widespread for all segments. Each identified gap provides a clear and evidence-based rationale for the proposed improvements, directly feeding into the recommendations section.

4. Conclusion

Uzbekistan's economy is characterized by robust growth and ongoing, ambitious financial sector reforms, yet it simultaneously faces significant and emerging vulnerabilities within its banking system, particularly related to asset quality, the rapid expansion of household debt, and contingent liabilities from state-owned enterprises. The pervasive dominance of state-owned banks, coupled with legacy issues such as directed lending and insufficient transparency, can obscure true risk profiles, distort market signals, and impede accurate, market-based financial stability assessments. A critical impediment to comprehensive and forward-looking financial stability analysis is the presence of significant data gaps and limitations in the public accessibility of granular financial information for both the corporate and household sectors. While the Central Bank of Uzbekistan is commendably active in implementing macroprudential policies and conducting stress tests, there remains substantial scope to integrate more advanced analytical tools, such as machine learning and network analysis, and to refine existing methodologies to more effectively capture and mitigate both systemic and micro-level financial risks.

Recommendations for Improving Financial Stability Analysis

Accelerate full IFRS adoption and improve public accessibility of corporate financial statements: While IFRS adoption is mandatory for certain large entities in Uzbekistan, full public disclosure of financial statements for most companies remains voluntary, and often only summarized reports are released. This creates a significant information asymmetry that hinders comprehensive analysis. Enhanced IFRS adoption and widespread public disclosure of full corporate financial statements will not only significantly improve financial transparency, thereby attracting foreign investment and enhancing the country's global competitiveness, but crucially, it will also provide essential, standardized, and comparable data. This data is vital for more accurate and robust financial stability analysis of the corporate sector, allowing for deeper insights into solvency, leverage, and profitability, thus moving beyond mere compliance to leveraging data for systemic risk assessment. The current lack of detailed, standardized corporate financial data directly impedes a comprehensive assessment of corporate financial health.

Strengthen credit bureau coverage and data quality for both individuals and businesses: Current credit bureau coverage for adults in Uzbekistan is approximately 47.8%, with a notable 0% for credit registry coverage. While CRIF provides credit scores, there is a recognized absence of a unified "single information field". Incomplete and fragmented credit data creates critical blind spots for both commercial banks and financial regulators, directly contributing to instances of "irresponsible lending" and consumer "over-indebtedness". A significantly strengthened and comprehensive credit bureau system would enable more precise and risk-based creditworthiness assessments, thereby mitigating both household and SME credit risks.

Develop comprehensive, granular, and timely supply-side and demand-side data collection systems: Current data collection efforts often prioritize prudential risk (supply-side data) but lack adequate integration with demand-side data, which captures consumer and firm behavior. While initiatives exist for improving geospatial data, broader financial data gaps persist, particularly concerning government debt obligations and state-owned enterprise financials. Achieving a truly holistic understanding of financial health and

stability necessitates the complete integration of demand-side data (e.g., household income, consumption patterns, financial literacy levels, and firm-level behavioral data) with existing supply-side data from financial institutions.

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