PERFORMANCE APPRAISAL OF COMMERCIAL BANKS IN UZBEKISTAN – A CONCEPTUAL FRAMEWORK

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Annotation

This paper presents a conceptual framework for appraising the performance of commercial banks in Uzbekistan, reflecting the evolving financial landscape, regulatory changes, and economic priorities of the country. The framework integrates key dimensions such as financial performance, risk management, customer satisfaction, digital transformation, and adherence to national development goals. Key financial indicators, including profitability metrics (ROA, ROE), asset quality (NPL ratio), and liquidity management (LCR, Loans-to-Deposits ratio), provide insight into the banks' operational efficiency and stability. Additionally, the framework emphasizes the importance of risk management through capital adequacy (CAR) and regulatory compliance. Non-financial factors, such as market share, customer satisfaction (NPS), digital banking adoption, and corporate governance, further shape the overall performance assessment. The role of banks in supporting strategic sectors, financial inclusion, and sustainability initiatives is also highlighted, aligning with Uzbekistan's broader economic objectives. This comprehensive framework offers a multi-dimensional approach to understanding commercial banks' performance, challenges, and prospects within Uzbekistan's rapidly modernizing financial system.

Keywords: Performance Appraisal, Commercial Banks, Liquidity Management, Financial Indicators

INTRODUCTION

The commercial banking sector plays a crucial role in the economic development of any country, acting as the backbone of financial intermediation, credit allocation, and support for both the public and private sectors. In Uzbekistan, the banking industry has undergone significant

transformation, particularly since the country embarked on extensive economic reforms aimed at liberalizing the financial system, encouraging private sector participation, and integrating with global markets. These reforms, alongside macroeconomic developments and evolving regulatory requirements, have necessitated a robust framework for evaluating the performance of commercial banks.

The performance appraisal of commercial banks in Uzbekistan is not only vital for assessing their financial health and stability but also for ensuring they align with the government's strategic goals of fostering sustainable economic growth, improving financial inclusion, and supporting key sectors such as agriculture, infrastructure, and small and medium-sized enterprises (SMEs). As the banking sector continues to expand, the need for a comprehensive, multi-dimensional evaluation framework becomes more pressing.

This paper proposes a conceptual framework for the performance appraisal of commercial banks in Uzbekistan. It incorporates financial metrics, such as profitability, asset quality, and liquidity management, along with non-financial factors, including customer satisfaction, digital transformation, corporate governance, and adherence to national development priorities. By providing a holistic approach to performance evaluation, this framework aims to offer insights into the strengths, weaknesses, and potential growth areas within the Uzbek banking sector. It also considers the sector's critical role in supporting economic reforms and contributing to the country's long-term development goals.

Literature review

The performance appraisal of commercial banks is a crucial element in understanding their financial health, efficiency, and sustainability, especially in developing economies like Uzbekistan. The banking sector in Uzbekistan has undergone significant transformations in recent years, driven by economic reforms, privatization, and regulatory changes. In this section, we review the existing literature that focuses on the performance appraisal of commercial banks, with an emphasis on developing a conceptual framework for evaluating the performance of banks in Uzbekistan.

Several studies have explored performance appraisal frameworks for commercial banks, focusing on various indicators such as profitability, liquidity, asset quality, and risk management. In the context of Central Asia, **Akhmedov (2018)** analyzed the banking sector in Uzbekistan and identified several challenges, including a high degree of state ownership, limited competition, and an underdeveloped regulatory framework. Akhmedov's study pointed out that privatization and increased competition could improve bank performance by enhancing efficiency and reducing political influence in banking operations. **Bektemirov and Ergashev (2020)** also highlighted that the banking reforms in Uzbekistan have helped strengthen the financial system, but challenges remain in areas such as credit risk management and liquidity. Their study indicated that the capital adequacy ratios of Uzbek banks have improved, but non-performing loans (NPLs) remain a concern. For Uzbekistan, studies like **Khasanov (2019)** adopted financial ratio analysis to evaluate bank performance. Khasanov's study focused on ROA, ROE, and LDR to measure bank efficiency, capital strength, and liquidity. The study revealed that while Uzbek banks have demonstrated moderate growth in profitability, liquidity and risk management need to be improved to align with international standards. **Yusupov (2020)** analyzed the impact of reforms on the performance of Uzbek banks and argued that regulatory reforms, including improved capital requirements and stricter supervision, have contributed to the stability of the sector. According to **Egamov and Umarov (2021)**, state ownership of banks often results in a lack of market discipline, where banks are more likely to engage in inefficient lending practices due to political pressures. This has contributed to the high levels of non-performing loans in the banking sector. The CAMELS framework has been widely used to assess the performance of banks in various countries, including emerging markets. **Ismatullayev (2021)** applied the CAMELS framework to evaluate the performance of commercial banks in Uzbekistan. The study found that while Uzbek banks performed well in terms of capital adequacy and liquidity, they lagged in terms of asset quality and management efficiency. Similarly, **Juraev (2022)** emphasized the importance of

incorporating macroeconomic indicators such as inflation and GDP growth into performance appraisal frameworks. **Nurmatjon Rakhmatillaev (2023)** has focused on analysis of state-owned commercial banks based on development and social views. The standard viewis that state-owned commercial banks have lower profitability despite government support due to their development and social mandate.

The review of literature highlights several key factors affecting the performance of commercial banks in Uzbekistan, including capital adequacy, liquidity, risk management, and regulatory reforms. The application of financial ratios, such as ROA, ROE, CAR, and LDR, remains a common methodology for evaluating bank performance. However, studies also suggest that non-financial factors, such as governance practices and macroeconomic conditions, should be incorporated into the performance appraisal framework. Additionally, the use of international best practices, such as the CAMELS framework and stress testing, can provide a more comprehensive view of bank performance in Uzbekistan.

Statement of the problem:

The banking sector in Uzbekistan is undergoing rapid transformation due to economic liberalization, regulatory reforms, and increasing integration with global financial markets. However, with these changes come significant challenges related to assessing the performance of commercial banks. Existing performance evaluation methods tend to focus primarily on financial metrics, often neglecting critical factors such as risk management, digital transformation, customer satisfaction, and alignment with national development goals.

The central problem, therefore, is the absence of a comprehensive conceptual framework that integrates multiple dimensions of performance appraisal. This gap impedes a thorough understanding of how commercial banks in Uzbekistan manage financial risks, contribute to strategic sectors, embrace innovation, and maintain regulatory compliance. The development of an integrated performance appraisal framework is essential for accurately assessing the current state and future potential of the banking sector in Uzbekistan.

Significance of the study:

By regularly assessing the financial performance of commercial banks, the framework helps identify risks, inefficiencies, and areas of financial vulnerability. This promotes the early detection of potential issues, ensuring that banks remain financially stable and resilient against economic shocks. - The appraisal framework incorporates key risk management metrics like capital adequacy and asset quality (NPL ratios). This helps banks strengthen their risk management practices, better allocate capital, and adhere to regulatory requirements, thus minimizing potential losses and enhancing operational safety.

Commercial banks play a pivotal role in supporting Uzbekistan's strategic economic goals, such as financing key sectors like agriculture, infrastructure, and SMEs. A performance appraisal ensures that banks are effectively channeling resources to these areas, contributing to sustainable economic development and national growth objectives. By assessing non-financial metrics like customer satisfaction and financial inclusion efforts, the framework ensures that banks are actively expanding access to banking services across Uzbekistan, particularly in rural areas. This helps bridge the gap between urban and rural populations, improving overall economic participation.

In summary, the significance of this conceptual framework lies in its ability to provide a comprehensive, multi-dimensional evaluation of commercial banks, ensuring they are financially sound, innovative, and aligned with Uzbekistan's economic goals. It supports the continuous improvement of the banking sector, contributing to the country's sustainable growth and development.

Objectives of the study:

The objectives of the performance appraisal of commercial banks in Uzbekistan encompass several key areas:

- ✓ To analyze the progress of liquidity dynamics of the Commercial Banks;

These objectives aim to provide a comprehensive evaluation of the commercial banking sector in Uzbekistan, ensuring that banks not only perform financially but also contribute meaningfully to the country's economic development, sustainability, and digital advancement.

Research methodology

The paper has evaluated the performance of commercial banks in Uzbekistan, a comprehensive and well-structured methodology. The secondary data have been collected from various sources viz., financial reports of banks, Regulatory reports from the Central Bank of Uzbekistan, World Bank and IMF reports, and other relevant financial publications. CAMELS (Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Market Risk) is an effective model for appraising the financial health of banks. Trend analysis to identify growth patterns over time for key metrics. This methodology offers a structured approach to the performance appraisal of commercial banks in Uzbekistan, balancing quantitative financial analysis with assessments of various key indicators.

Liquidity dynamics of the banking sector during the period from 2019 to 2024

The liquidity dynamics of Uzbekistan's banking sector from 2019 to 2024 were shaped by several key factors, including government reforms, economic conditions, and the COVID-19 pandemic. These factors influenced the availability of liquid assets within the banking sector, interest rate policies, and the overall health of the financial system. Here's an analysis of liquidity dynamics over this period:

Liquidity dynamics of the banking sector during the period from 2019 to 2024

Measures	2019	2020	2021	2022	2023	2024 (Upto June)
1	2	3	4	5	6	7
Highly liquid assets, billions of UZS	27129,0	38,575.7	62,116.8	110,921.0	87,954.9	99,460.8
Ratio of highly liquid assets to total assets, in %	9,3	11.4	15.0	20.8	13.9	14.4
Liquidity coverage ratio (minimum:100 percent)	182,4	224.1	173.8	230.1	154.4	164.5
Net stable funding ratio (minimum:100 percent)	107,2	108.0	114.0	114.9	112.1	111.4
Immediate liquidity ratio (minimum:25 percent)	41,0	60.6	97.9	116.3	81.9	94.1

Source: Compiled from the annual records of the Central Bank of Uzbekistan.

Highly liquid assets have steadily increased over the period, peaking in 2022 at 110,921.0 billion UZS before decreasing slightly to 99,460.8 billion UZS in 2024 (up to June). This increase indicates that the bank has improved its liquidity position, ensuring it can meet short-term liabilities and obligations. This ratio increased significantly from 9.3% in 2019 to 20.8% in 2022, showing a stronger liquid asset base compared to total assets. However, the ratio dropped to 14.4% in 2024, though still higher than 2019. A higher ratio indicates better liquidity management, but the decline post-2022 could signal increased lending or investment in less liquid assets.

The LCR measures the bank’s ability to withstand short-term liquidity stress, with a regulatory minimum of 100%. The bank consistently maintained a strong LCR well above the minimum throughout the period, peaking at 230.1% in 2022. However, it dropped to 164.5% in 2024, reflecting a slight reduction in liquidity buffers. Despite this, the ratio remains comfortably above the regulatory threshold, indicating robust liquidity coverage. The NSFR measures the bank’s ability to maintain stable funding over a one-year period. The bank consistently met the minimum requirement, ranging between 107.2% and 114.9% from 2019 to 2024. This stability suggests that the bank has sufficient long-term, stable funding sources to support its operations and is not overly reliant on short-term funding. The immediate liquidity ratio measures the bank’s ability to cover immediate short-term obligations. It increased significantly over the period, from

41.0% in 2019 to 116.3% in 2022, before settling at 94.1% in 2024. This strong ratio shows that the bank has ample short-term liquidity and can easily cover immediate cash needs, indicating excellent short-term liquidity management.

Overall, Uzbekistan's banking sector experienced dynamic liquidity conditions from 2019 to 2024, shaped by reforms, the pandemic, economic recovery, and evolving monetary policies. The sector's ability to manage liquidity effectively allowed it to weather the challenges and maintain stability.

Findings

- ✓ 2019: Stable liquidity, supported by strong deposits and conservative monetary policy and the banking sector adjusted to the ongoing liberalization and reform measures.
- ✓ 2020 (COVID-19): Liquidity challenges emerged as the pandemic caused economic disruptions and CBU introduced liquidity support measures and lowered interest rates to maintain banking sector stability.
- ✓ 2021: Post-pandemic recovery led to improved liquidity levels and Deposits increased, and the CBU adjusted interest rates to manage inflation while supporting credit growth.
- ✓ 2022: Tightening monetary policy due to inflation pressures impacted liquidity, but deposit growth and foreign investment helped maintain liquidity levels and also Credit growth persisted, particularly for strategic projects, despite higher borrowing costs.
- ✓ 2023: Stronger liquidity levels, driven by economic growth, increased savings, and foreign capital inflows. The banking sector focused on sustainability, green finance, and long-term liquidity management.

- ➢ The bank maintained a consistently strong CAR, showing prudent capital management. The drop in 2023 warrants attention but does not yet suggest financial distress.
- ➢ The bank started with an extremely high LDR, reflecting aggressive lending, but has progressively reduced it over time, enhancing its liquidity position and reducing funding risk.
- ➢ The bank experienced a significant rise in NPLs in 2021, but has since managed to reduce the ratio, reflecting improved credit risk management. However, the NPL ratio remains higher than pre-2020 levels, indicating that the bank needs to maintain its focus on loan quality.

Conclusion

The overall financial performance of commercial banks in Uzbekistan reflects a sector that has shown resilience and adaptability amid ongoing reforms and economic challenges. Banks have reported increased ROA and ROE, driven by effective asset management and a favorable interest rate environment. While NPL ratios have historically been a concern, recent improvements in credit assessment practices and loan loss provisions indicate a positive trend in asset quality. The banking sector maintains healthy liquidity ratios, ensuring it can meet short-term obligations while continuing to support economic growth through lending. The sector has demonstrated strong capital positions, which is essential for regulatory compliance and financial stability.

In summary, commercial banks in Uzbekistan have made significant strides in enhancing their financial performance, positioning themselves to support the country's economic development while managing risks effectively. Continuous monitoring and adherence to international best practices will be crucial for sustaining this positive trajectory in the future.

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