

## **THE ECONOMIC SIGNIFICANCE OF THE DEVELOPMENT OF THE SERVICE SECTOR IN THE BANKS OF UZBEKISTAN**

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**Annotation:** This article examines the economic significance of developing the service sector in Uzbekistan's banks, its role in strengthening the national economy, the importance of innovative services, and its contribution to improving the financial literacy of the population. Additionally, the article analyzes the issues in the banking services market and prospects for development, presenting advanced practices and recommendations.

**Keywords:** bank, banking operations, service, servicing, financial literacy, innovative services, economic development, digital banking, deposit, credit, bank cards, innovation, online services, client, diversification.

**Introduction.** Today, the service sector is considered one of the key directions for economic development. The development of the service sector is outlined in the resolution of the President of the Republic of Uzbekistan, "On Measures for the Accelerated Development of the Service Sector"[1]. At the same time, the modernization and improvement of the quality of banking services are among the priority tasks of Uzbekistan's economic policy. The banking system plays a significant role not only in the allocation of financial resources but also in creating new jobs through innovative services and supporting small and medium-sized businesses. These objectives and strategies are implemented based on the Law of the Republic of Uzbekistan "On Banks and Banking Activities"[2]. The digitization of banking services, the expansion of cooperation with international financial institutions, and improving the population's access to financial services contribute to increasing efficiency.

In our country, the expansion of banking infrastructure is contributing to the intensification of competition among banks and the improvement in both the quality and variety of banking services. On May 12, 2020, the President of the Republic of Uzbekistan adopted Decree No. PF-5992 "On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020–2025"[3]. Under this decree, the Central Bank and the Ministry of Finance, in cooperation with the World Bank, developed key conclusions and recommendations based on an assessment of the current state of the country's banking system. This was done while considering the financial sector transformation experience of foreign countries and international financial trends.

Significant issues in improving the services offered by commercial banks in the Republic of Uzbekistan include:

- Disruptions in providing cash to customers in remote areas of the country by commercial banks.

- Insufficient qualifications of bank employees and a shortage of skilled IT specialists.
- The growing necessity of incorporating environmental, social, and governance (ESG) aspects into banking services.

#### **Analysis of Relevant Literature**

Numerous scientific works and research studies by scholars have been reviewed on this topic. In particular, D. Wulandari, in her article *“Customer Satisfaction as a Priority in Excellent Banking Services”*, stated that *“...providing exemplary indicators of service in the banking business is one of the efforts to ensure satisfaction and build loyalty.”*[4]. The author highlighted the phenomenon of customer loyalty through exceptional service and the provision of added value.

L. Feng, L. Hui, H. Meiqian, C. Kangle, and D. Mehdi, in their article *“Customer satisfaction with bank services: The role of cloud services, security, e-learning, and service quality”*[5], examined factors influencing customer satisfaction with electronic banking services. The study identified four critical factors that could enhance customer satisfaction with electronic banking: cloud services, security, e-learning, and service quality.

Furthermore, a prominent scholar from our country, Professor O. Tursunov, in his article *“Ways to develop digital services in commercial banks”*[6], emphasized the necessity for banks to offer a wide range of services tailored to customer needs as a contemporary requirement. He suggested that banks should prioritize customer interests while implementing income-generating programs and initiatives. Moreover, it is essential to explain the essence, benefits, and potential risks of each financial service to clients through active communication by bank branches. Providing diverse financial services not only broadens the revenue sources of banks but also elevates them to the level of modern banking institutions. The quantitative attributes of commercial bank services are determined by the number, scope, and variety of services, while their qualitative attributes are characterized by the service quality, speed, targeted delivery, and the degree of customer satisfaction.

T. Rakhmatov, in his article *“Ways to Develop Banking Services”*[7], conducted an in-depth study of the banking services provided by commercial banks in Uzbekistan. Using practical data, he analyzed the existing challenges in this area and proposed recommendations for addressing these issues.

**Research Methodology.** In the research process of this article, various methods were employed to study the development of the banking service system and improve the quality of services. These methods included monographic research, analysis and synthesis, as well as statistical analysis. The findings were further enriched by examining the results of monographic studies on international experiences in banking services.

#### **Analysis and Results**

Currently, the banking sector is actively integrating information and communication technologies to meet modern demands, leading to the automation of numerous banking services. The scale of development in providing and implementing banking services is determined by the use of advanced banking technologies that cater to customer demands. Globally, the service sector is recognized as one of the most profitable industries. In Uzbekistan, significant attention is being directed toward further developing this sector and comprehensively supporting entrepreneurs engaged in service provision. In particular, in recent years, financial institutions

have played a crucial role in providing credit resources to aspiring entrepreneurs looking to establish businesses in this field. This support not only encourages entrepreneurship but also contributes to the overall growth of the service sector in the country.

Table 1.

Content of the issues raised in the appeals from individuals and legal entities to the Central Bank during the first quarter of 2023-2024

№	A matter of appeal	Appeals	
		the number	share, in %
1	Bank loans and credit operations	787	59,7
2	In the matter of opening bank accounts, payment system and cashless settlements	235	17,8
3	In the matter of the behavior of bank employees	77	5,8
4	Obtaining information and offers on banking activities	52	3,9
5	In the case of bank cards, terminals and ATMs	47	3,6
6	In the matter of currency regulation and control	27	2
7	Bank deposits and other deposit operations	25	1,9
8	In the matter of work	25	1,9
9	In the matter of receiving pensions	9	0,7
10	In the issue of establishment and liquidation of banks and credit organizations	8	0,6
11	Other issues	26	2,1
	Total	1 318	100

*Source: Central Bank of the Republic of Uzbekistan[8].*

Table 1 primarily highlights problematic appeals received from individuals and legal entities regarding ten key services. It is evident that the most frequently raised issues pertain to bank loans and credit operations, as well as opening bank accounts, payment systems, and non-cash transactions. This indicates a high demand for these two services and suggests that they are not being fully delivered or efficiently managed.

Additionally, the analysis of appeals from individuals and legal entities has revealed systemic issues and shortcomings. In such cases, efforts are being made to improve the requirements for the activities of credit institutions by amending and supplementing existing legislation and regulatory documents. The revenue generated through the execution of all financial services has been increasing, as observed in Table 2.

Table 2.

Years (as of January-December of the year)	Financial services <sup>1</sup> (billion soums)
2019	34036,6
2020	45783,0
2021	59733,3
2022	80849,1
2023	106363,8

*Source: Central Bank of the Republic of Uzbekistan[8].*

It should also be noted that as of January 1, 2024, there are 35 commercial banks operating in the republic. Of these, 10 banks have state capital participation, 19 are private banks, and 6 are banks with foreign capital involvement. In order to expand the scope of banking services, in 2023, licenses granting the right to conduct banking activities were issued to the joint-stock companies “Apex bank”, “Hayot bank” and “Yangi bank”. The number of commercial bank branches reached 696, mini-banks – 69, bank service offices – 1 747, and branches operating around the clock in “24/7” mode reached 3 723[9].

The privatization of “Ipoteka bank” has brought foreign capital into the Uzbek market, while the establishment of banks such as Tenge Bank, Ziraat Bank Uzbekistan, and TBC Bank has facilitated the operation of foreign banks' branches in Uzbekistan. As of the beginning of 2024, the total assets of Uzbekistan's banks amounted to nearly 652 trillion soums, and the total charter capital reached 68.1 trillion soums[9].

As noted by the World Bank, Uzbekistan has been pursuing a “transition period policy” over the past seven years to achieve economic liberalization and improve macroeconomic governance[9].

The main directions for the development of banking services and the banking sector in our country are as follows:

- Improving the quality of services and making them more accessible to a wider population. Mobile banking, internet banking, and electronic payment systems are creating convenient conditions for customers.
- It is necessary to implement educational programs to increase the population's level of use of financial services. This, in turn, strengthens trust in the banking system.
- Expanding the scope of services such as lending, insurance, and investment products increases the opportunities to support various sectors of the economy.
- Banks must enhance their competitiveness by analyzing customer needs and offering tailored services.

<sup>1</sup> Financial services are provided by the Central Bank, commercial banks, and other financial-credit institutions. This group of services includes the financial intermediation services of banks (financial leasing, lending), as well as remote banking services (internet banking, mobile banking), investment funds, and other financial intermediation services by financial institutions, as well as auxiliary financial intermediation services in financial markets (stock and currency exchanges) and other financial services.



The economic significance of banking services lies in the fact that the banking system, as the “lifeblood” of the economy, regulates economic activity in the country. Financial flows between the population and business entities are managed through banks. The development of the service sector ensures the following economic benefits:

- Banks contribute to economic growth by attracting funds to investment projects.
- Expansion of innovative services creates new job opportunities.
- The credit system supports the development of small and medium-sized businesses, ensuring economic stability.
- Ensuring the financial satisfaction of the population and business entities fosters socio-economic balance.

### **Conclusion**

The development of the service sector in Uzbekistan’s banking system is a crucial factor for the sustainable growth of the national economy. By implementing digital technologies, improving financial literacy, and expanding the range of innovative services, the efficiency of the banking system can be enhanced. At the same time, addressing existing issues in banking services requires collaboration between the government, banks, and society.

Below are the main recommendations for the development of banking services:

Firstly, introducing new financial products and services tailored to the needs of the population.

Secondly, diversifying and expanding the functionality of mobile applications and internet banking services for customers.

Thirdly, establishing bank branches and service points in remote areas.

Fourthly, developing simplified credit mechanisms for small and medium-sized businesses.

Fifthly, expanding banking infrastructure in rural areas and creating convenient opportunities for rural residents by developing mobile banking services.

Sixthly, enhancing the qualifications of bank employees in digital technologies and customer service.

Seventhly, broadening state programs to finance innovative services.

Eighthly, improving service quality and diversifying the products offered to customers by fostering a healthy competitive environment among commercial banks.

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