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Article

Improving Liquidity Risk Management Mechanisms in Commercial Banks of Uzbekistan

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Abstract: The study investigates the liquidity management of commercial banks in Uzbekistan in a period whereof faster credit expansion and increasing non performing loans are creating new challenges for the system. Although Basel III tools like the Liquidity Coverage Ratio and the Net Stable Funding Ratio have been implemented in the country, this stands in stark contrast to the effectiveness of standards in a situation where distressed assets continue to build and find no institutional mechanism for their resolution. Based on the official banking data, as well as regulatory documents and comparative analysis with the international practices, the research assesses effectiveness of existing liquidity tools, points to structural vulnerabilities of the banking system, and tests increasing impact of LLP growth on stability provide to banks by a stable funding. The results indicate that in large banks, excessive NPL concentration fuels liquidity risks, secondary markets for distressed assets are very limited and prudential ratios are uniform, not tailored for bank risk profiles. Based on the consultancy report, this indicates a combination of institutional reform toward the establishment of an Asset Management Company, establishment of NPL trading mechanisms as well as a risk based calibration of LCR and NSFR to improve liquidity resilience. It said, in the absence of these measures, liquidity pressures will continue to hamper banking system stability and its ability to support the economy.

Keywords: Basel III, calibration, Central Bank, commercial banks, liquid assets, liquidity risk, LCR, NSFR, stress testing.

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1. Introduction

At the same time, a modern market economy creates prerequisites for more complex institutions of financial intermediation, the unpredictable nature of the global liquidity environment, and changing challenges in the real sector of the economy pave the way for advanced and scientific methods for liquidity risk management in Uzbekistan's commercial banking system [1]. Adequate liquidity would not only enable banks to meet their immediate obligations and remain solvent while contributing to financial stability, but also help ensure the banking system as a whole functions robustly and reliably.

The Central Bank has also implemented important reforms in this respect in the last few years, with the aim of modernizing the institutional structure of prudential regulation by introducing international parameters, such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) aligned with Basel III standards and diversifying the instruments to provide interbank liquidity [2]. Such measures have also helped to strengthen the systemic stability of the sector. But structural weaknesses in the resource base, continuing maturity mismatches between assets and liabilities, rising illiquidity of

assets, and underdevelopment of market discipline call for a reappraisal and overhaul of existing liquidity risk management frameworks.

The purpose of this article is to analyse the current practice of liquidity risk management in commercial banks, assess the effectiveness of existing prudential regulations, to identify the potential to adopt international best practices to the national environment and to develop grounded institutional and methodological rationale for structural improvements for detecting liquidity risk management.

2. Materials and Methods

The present research study is of scientific and methodological nature and is intended to determine the mechanism of liquidity risk management in commercial banks of the Republic of Uzbekistan [3]. The construction of the analytical framework is based on official statistical data from the Central Bank, annual financial statements of commercial banks, regulatory documents on prudential norms, and methodological guidelines from the Basel Committee on Banking Supervision (BCBS).

Research methodology consists of various steps one after another. The first phase consisted of the synthesis of the theoretical foundations of liquidity risk, as well as the international standards and global best practices through an extensive bibliographic review. The second stage included a comparative statistical analysis of key indicators (structure of banks` balance sheet; maturity misbalance of assets and liabilities; structure and share of HQLA, stability of funding sources). Interbank heterogeneity and temporal pattern were identified using time-series analysis, structural dynamic indicators and variation coefficients.

The study employed a normative applied comparative analysis of liquidity risk determinants with context to LAR methodologies in order to evaluate liquidity risk so as to develop corresponding regulatory frameworks based on international standards between banking markets using LCR and NSFR in line with applicable USA and Japanese markets. In addition, using an institutional analysis and regulatory-monitoring lens, the study also investigated the Central Bank's own prudential policies specifically, those pertaining to liquidity buffers and indicators of market discipline [4].

At third stage, diagnostic tools were used in order to identify weaknesses and structural gaps in current liquidity management mechanisms. Stress-testing models were conceptual in nature and identified possible varieties of stress scenarios and their effects on the liquidity positions across the banking system.

Then, from empirical experiences, the research provides pragmatic suggestions to contribute to the institutional, regulatory, and methodological development of liquidity risk management effectiveness and resilience in commercial banks of Uzbekistan [5].

3. Results and Discussion

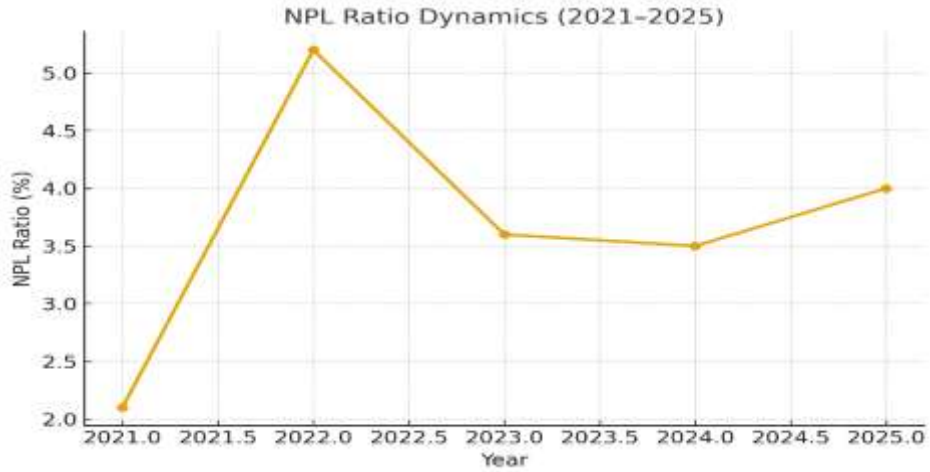
Here we discuss the integrated analysis of the trend of evolution of NPLs in the commercial banks of Uzbekistan over the period 2021–2025, the structure of segmentation of banks according to the size of their assets, and the impact of this on the liquidity and stability of the banking sector as a whole. It further stresses the institutional absence of an Asset Management Company (AMC), underdeveloped secondary markets for distressed assets, and calibrating prudential liquidity standards on a risk-sensitive basis as international practice [6]. This is a critical, empirical, integrated scholarly discussion of global regulatory frameworks along with empirical data and comparative experience.

As seen in the empirical data, Uzbekistan’s commercial banks’ total loan portfolio increased almost twofold moving from UZS 277 trillion in 2021 to UZS 533.1 trillion by 2025. But this quantitative expansion came along with an even higher growth of NPLs, which increased by 3.6 times from UZS 5.8 trillion to UZS 21.2 trillion [7]. That divergence between credit growth and asset quality deterioration is reflected in weaknesses with credit risk assessment and portfolio monitoring as well as internal control mechanisms (Table 1).

Table 1. Dynamics of Non-Performing Loans, 2021–2025

Date	Total Loans (trln UZS)	Total NPL (trln UZS)	NPL (State-owned Banks)	NPL (Private Banks)	NPL Ratio (%)
01.01.2021	277.0	5.8	5.2	0.6	2.1
01.01.2022	326.4	17.0	15.1	1.9	5.2
01.01.2023	390.0	14.0	12.6	1.3	3.6
01.01.2024	471.4	16.6	13.3	3.4	3.5
01.01.2025	533.1	21.2	14.3	6.8	4.0

Figure 1. Annual dynamics of the Non-Performing Loan



This chart illustrates the annual dynamics of the Non-Performing Loan (NPL) ratio in Uzbekistan's commercial banking sector for the period 2021–2025. All textual elements follow Times New Roman (12 pt) academic formatting (Figure 1).

The steep increase last year in the NPL ratio to 5.2 percent reflects those banks expanded faster than they were able to assess risk [8]. The apparent overall improvement in 2023 is mainly due to loans being restructured, and not due to any real improvement in borrowers' capacity to repay due to this, the underlying risks were still present, only gang hidden temporarily. The uptick in NPLs again in 2024 and 2025 indicates these structural issues are still not resolved.

State owned banks hold 70 to 85 percent of all NPLs, and most of the pressure is on them. This indicates that they are still lending based on administrative or policy driven priorities rather than market-based risk principles. Although the indicators of private banks are better in absolute terms, the NPLs of private banks have increased eleven times for the same period, which indicates that risks are covering the entire sector, not only the state-owned segment [9].

Combined, these trends are squeezing liquidity in the banking system. When non-performing loans cease to produce cash inflows, there are less high-quality liquid assets available to the banks, weakening their capacity to meet short term obligations and maintain steady liquidity positions.

Bank-level heterogeneity and systemic concentration by asset size

The segmentation of banks by asset size reveals a highly concentrated banking system. In 2025, eight largest banks accounted for UZS 538.2 trillion of total assets approximately 70% of system-wide assets [10]. This concentration magnifies systemic risk, since deteriorating portfolio quality in large institutions has a disproportionately strong effect on the liquidity position of the entire sector (Table 2).

Indicators	Total	<3 trln	3–10 trln	10–30 trln	>30 trln
Number of banks	36	11	7	10	8
Assets (trln UZS)	769.3	9.1	45.7	176.3	538.2

Loans (trln UZS)	533.1	3.4	26.5	112.7	390.5
Capital (trln UZS)	114.8	4.6	8.4	27.6	74.2
Capital adequacy (%)	17.3	47.5	19.5	16.8	16.7
Net profit (trln UZS)	7.0	–0.2	1.6	3.5	2.1

Table 2. Segmentation of Banks by Asset Size (as of 1 January 2025)

The pie chart given below illustrates the distribution of commercial banks in Uzbekistan based on their total asset size as of 1 January 2025. The segmentation clearly shows a high level of concentration, with banks holding more than 30 trillion UZS accounting for 70% of total banking assets (Figure 2).

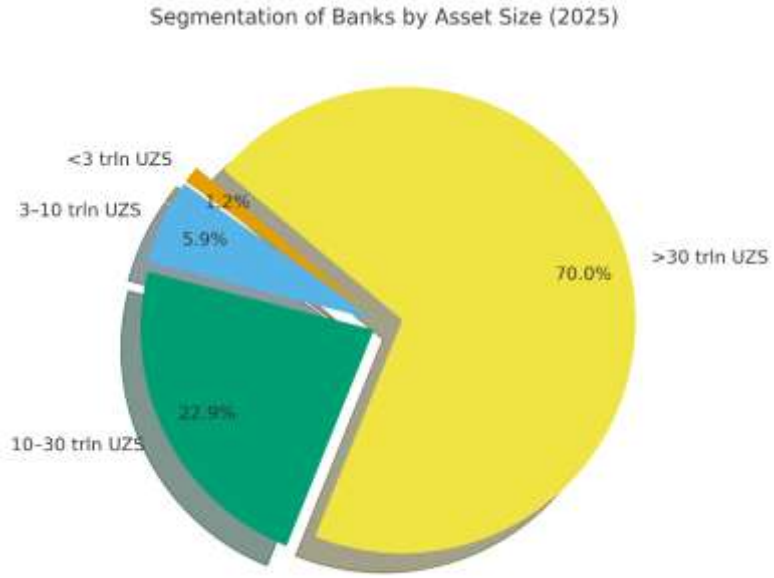


Figure 2. Distribution of commercial banks in Uzbekistan

These forces have resulted in small banks functioning in a scale inefficient manner, resulting in losses, and higher sensitivity to exogenous liquidity shocks. For large banks, on the other hand, they own most of the loan portfolio, so any increase in NPLs in this group very quickly becomes liquidity pressure on the whole system. In small banks, the extremely high capital ratios just tell us that they are small and low-risk, low-activity, real strength actually never volitional capital ratios [11]. Meanwhile, tumbling earnings in big lenders indicate rising credit risk is pressuring margins and squeezing liquidity throughout the industry.

Institutional absence of NPL disposal mechanisms and its implications for liquidity

The absence of an Asset Management Company, operating secondary market from distressed loans and all standard securitization tools at hand for banks to offload NPL portfolio is one of the key structural weaknesses in Uzbekistan financial system. In absence of these mechanisms, non-performing loans linger on bank balance sheets much longer than they ought. With no cash generated by these assets, they continuously deplete liquidity and drive banks into Central Bank refinancing. It also skews official liquidity metrics like the LCR and NSFR, which in appearance may suggest compliance even in scenarios where the underlying ability to generate cash flow is weak [12]. The presence of NPLs congest balance sheets, delay asset turnover and restrict banks from providing new credit to the real economy. Goob even said finding the actual level of embedded risk is made difficult because there is no open market for distressed assets. Combined, these factors meaningfully lower overall liquidity resilience.

International experience demonstrates that successful NPL resolution is dependent upon unambiguous institutional mechanisms. A prime illustration is Korea's KAMCO, which bought and restructured more than $110 billion in bad loans during the Asian

financial crisis, bringing national NPL ratios down from 8 percent to 2 percent in three years [13]. Turkey has adopted a market driven model with of over twenty licensed AMCs purchasing distressed assets at visible price that enables the bank to liberate around twenty percent of its liquidity. EU member states, including Italy, leverage securitization schemes such as GACS, convert NPLs into asset backed securities with narrow state guarantees to accelerate portfolio deleveraging. By structuring the process through an FDIC-style system that transfers problematic assets to bridge organizations, or that provides competitive sales mechanisms for asset transfer, the U.S. reinforces market discipline and allows for a rapid restoration of liquidity [14]. On the other hand, Uzbekistan does not have any of these three mechanisms, resulting in NPL build-up being significantly more detrimental for liquidity and financial stability.

Basel III states that liquidity and capital rules should be bank-specific according to the risk profile, factoring NPL levels, stability in funding, maturity of assets and systemic importance. Conversely UA:FAC:n the strict regulatory ratios that every bank in Uzbekistan currently must meet regardless of how much risk they actually have dilute prudential oversight. We need a new risk-sensitive approach Given that impaired loans create poor cash receipts, those banks with higher levels of NPL should maintain bigger LCR buffers. NSFR standards should also be tighter for institutions with volatile or ead, short-term funding structures [15]. The introduction of a countercyclical capital buffer would help to dampen the effects of rapid credit growth, but more importantly, ensure that risk does not build up during times of expansion.

4. Conclusion

A 2021 to 2025 review of Uzbekistan's banking sector indicates that asset quality has deteriorated quite clearly in the face of rapid growth. The case of fusion loans hit bottom, especially the state-owned bank, reflect the credit ability to appraise the, the ability of the entire portfolio to operate and the ability to manage the risk power is not strong. Because banking assets are so concentrated in the hands of a very small number of large institutions, any weakening within these banks is almost immediately transmitted as pressure on the whole financial system.

The report points out that one of the core problems was that banks did not have any tools available to assist work out bad debt from banks' balance sheets. It lacks an Asset Management Company, a functioning secondary marketplace for troubled loans or a legal basis for converting non-performing loans into liquidity. This is why nonperforming loans linger forever on balance sheets. This compresses liquidity, restricts HQLA and dilutes the economic significance of metrics like the LCR and the NSFR. It also slows the flow of capital back into the real economy.

Lessons from across the world is that, through effective resolution systems, even severely adverse or systemic situations can restore liquidity and position stability. We find that Korea adopts the KAMCO approach, Turkey adopts the private sector problem loan purchase-based model, Italy applies the GACS framework and the United States adopts the FDIC model. All of these examples illustrate the benefit of cleaning up assets promptly.

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