E-ISSN: 2997-9366
American Journal of Management Practice
https://semantjournals.org/index.php/AJMP

| Research Article

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Modern Trends in Bank Lending Practices in Uzbekistan and Opportunities for Their Further Improvement

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Abstract: This article examines the current trends in bank lending practices in Uzbekistan and identifies opportunities for their further improvement. The study analyzes the dynamics and structure of bank lending, changes in lending volumes, the development of retail and corporate lending, as well as the impact of digital technologies on the organization of credit processes. Particular attention is paid to improving borrowers' creditworthiness assessment, strengthening credit risk management, expanding digital lending services, and enhancing the quality of banks' credit portfolios. The study also considers the importance of diversifying lending by economic sectors, improving the maturity structure of loans, and increasing the efficiency of risk-based approaches to credit decision-making. Based on the analysis, the article develops practical recommendations aimed at improving the efficiency and accessibility of bank lending in Uzbekistan, reducing credit risks, and ensuring the sustainable development of the banking sector.

Keywords: Bank Lending, Commercial Banks, Credit Activity, Credit Portfolio, Credit Risk, Digital Lending, Creditworthiness, Uzbekistan, Banking Sector, Lending Efficiency

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Introduction

In the context of the ongoing transformation of the banking sector, improving the efficiency of bank lending has become one of the important priorities of financial sector development in Uzbekistan. Bank lending plays a significant role in financing economic activity, supporting entrepreneurship, increasing household access to financial resources, and stimulating investment processes. Therefore, the modernization of lending practices, improvement of credit risk management, expansion of digital lending services, and enhancement of the quality of credit portfolios are becoming increasingly important.

The development of Uzbekistan's banking sector in recent years has been characterized by a significant expansion of lending operations. According to the Central Bank of the Republic of Uzbekistan, the total loan portfolio of commercial banks increased from 533.1 trillion UZS as of January 1, 2025, to 604.0 trillion UZS as of January 1, 2026, representing a 13 percent increase. During the same period, loans to individuals increased by 24 percent, from 177.5 trillion UZS to 220.3 trillion UZS, while loans to legal entities increased by 8 percent, from 355.6 trillion UZS to 383.7 trillion UZS. Particularly noteworthy is the 107 percent increase in loans aimed at developing entrepreneurship, which reached 40.5 trillion UZS by the beginning of 2026.[1]

The expansion of lending has continued during 2026. As of August 1, 2026, the total loan portfolio of commercial banks reached 644.6 trillion UZS, increasing by 12 percent compared with the same period of the previous year. At the same time, loans to individuals accounted for 37 percent of the total portfolio and reached 239.8 trillion UZS. Loans to agriculture amounted to 66.4 trillion UZS, while loans to construction reached 21.6 trillion UZS. These changes indicate an increasing role of bank lending in meeting the financial needs of both households and economic sectors.

At the same time, the expansion of lending creates new requirements for the quality and sustainability of credit operations. In particular, the rapid growth of retail lending, changes in the sectoral structure of credit portfolios, household debt burdens, and the need to maintain an appropriate balance between lending growth and funding sources require banks to strengthen credit risk management. As of July 1, 2026, the ratio of loans to deposits in the banking system was 136 percent, while this indicator was significantly higher in state-owned banks at 171 percent. This demonstrates the importance of strengthening the deposit base and improving the balance between credit expansion and banks' funding resources.[2]

Another important trend is the digitalization of lending processes. The introduction of remote identification, automated credit scoring, online loan applications, and digital banking platforms is changing traditional approaches to borrower assessment and credit decision-making. According to the Central Bank, by the end of 2025, 28 commercial banks were using Face ID technology, while the number of clients verified through digital identification in banking and payment applications reached 12.2 million. At the same time, measures have been introduced to reduce fraud risks associated with online microloans, including additional customer identification procedures.

The institutional environment for improving lending practices is also developing. In 2025–2028, Uzbekistan's banking regulation and supervision roadmap envisages further implementation of Basel III standards, strengthening risk management and corporate governance, and expanding risk-based banking supervision. These measures are directly related to improving the quality of credit decision-making and strengthening the resilience of banks to credit and other financial risks.[3]

Thus, the current development of bank lending in Uzbekistan is characterized not only by an increase in the volume of loans, but also by structural changes in lending, rapid development of digital financial services, increased attention to credit risk management, and the gradual transition toward risk-oriented banking regulation. Against this background, studying modern trends in bank lending practices and identifying opportunities for their further improvement is of particular scientific and practical importance. This study therefore focuses on assessing the current state of bank lending in Uzbekistan, identifying existing problems and trends, and developing practical recommendations for improving the efficiency, accessibility, sustainability, and risk management of bank lending.

Bank lending has been extensively studied in the literature as one of the fundamental functions of commercial banks and an important mechanism for allocating financial resources within an economy. The theoretical foundations of bank lending are closely associated with the intermediary role of banks, information asymmetry, credit risk, liquidity management, and the efficiency of financial intermediation.[4]

One of the important theoretical approaches to bank lending is based on the concept of information asymmetry. Stiglitz and Weiss demonstrated that asymmetric information between banks and borrowers may lead to credit rationing, even when borrowers are willing to pay higher interest rates. According to their approach, banks face difficulties in distinguishing between high-risk and low-risk borrowers, which increases the importance of effective borrower screening and credit

assessment mechanisms. This theoretical perspective remains relevant for modern banking because the quality of credit decisions directly affects the level of non-performing loans and the overall stability of banks.

The relationship between bank lending and economic activity has also been examined extensively. Bernanke and Gertler emphasized the role of the credit channel in transmitting monetary policy to the real economy. Their findings indicate that changes in banks' lending capacity and borrowers' access to credit can influence investment and economic activity. This approach is particularly relevant for developing economies, where bank financing represents an important source of external funding for enterprises and households.[5]

The literature also pays considerable attention to credit risk management. Basel Committee on Banking Supervision emphasizes that effective credit risk management should include sound credit-granting processes, appropriate credit administration, measurement and monitoring of credit risk, and adequate controls. From this perspective, the improvement of lending practices requires not only expanding the volume of loans but also ensuring the quality and sustainability of the credit portfolio.

The development of digital technologies has introduced new approaches to lending. Financial technology has enabled banks and other financial institutions to use alternative data, automated scoring models, artificial intelligence, and digital identification in the credit decision-making process. According to World Bank research, digital financial services can reduce transaction costs and expand access to financial services, particularly for customers who have traditionally had limited access to formal financial institutions. At the same time, digitalization creates new challenges related to cybersecurity, data protection, model risk, and consumer protection.[6]

Another important area of research concerns the relationship between lending growth and financial stability. Rapid credit expansion can support economic growth when it is accompanied by adequate risk management and sustainable funding. However, excessive or poorly managed credit growth may increase borrowers' debt burdens and the probability of deterioration in asset quality. Therefore, contemporary research increasingly emphasizes the need to balance quantitative expansion of lending with improvements in credit portfolio quality and risk-adjusted efficiency.

In the context of Uzbekistan, research on bank lending has become increasingly important due to the transformation of the banking sector, expansion of private banking institutions, digitalization of financial services, and gradual strengthening of market-based mechanisms. Publications of the Central Bank of the Republic of Uzbekistan provide important empirical information on the dynamics and structure of bank lending, credit portfolio quality, lending to households and businesses, and developments in banking regulation. These data create an important empirical basis for assessing current lending practices and identifying structural changes in the Uzbek banking sector.[7]

Uzbek scholars have mainly examined issues related to improving credit mechanisms, expanding lending to small businesses and entrepreneurship, strengthening credit risk management, improving the quality of bank assets, and introducing digital technologies into banking services. However, there remains a need for further research that combines quantitative expansion of lending with qualitative indicators such as credit portfolio diversification, borrower creditworthiness, maturity structure, non-performing loans, loan-to-deposit ratios, and risk-adjusted lending efficiency.

A review of the existing literature demonstrates that modern bank lending should be considered as a multidimensional process that combines financial accessibility, credit portfolio quality, risk management, digital transformation, and financial stability. For Uzbekistan, this approach is

particularly relevant because the rapid expansion of bank lending requires simultaneous improvement in credit assessment methodologies, diversification of loan portfolios, strengthening of banks' funding bases, and development of digital risk-management instruments. Therefore, this study focuses on the current trends in bank lending practices in Uzbekistan and identifies practical opportunities for their further improvement.[8]

Professor F. Xolmamatov, in his scientific research, proposed "increasing the level of diversification of commercial banks' loan portfolios by expanding the volume of retail loans granted to individuals." The author pays particular attention to retail lending as one of the most important components of retail banking services and suggests that increasing retail loans would contribute to improving the overall structure and diversification of banks' credit portfolios.

Another local researcher, S. Asqarov, emphasizes that "commercial banks consider new banking products and services as an important instrument for ensuring their economic growth, competitiveness, and stability. Banks cannot operate effectively in the market without introducing new products and improving their quality. Therefore, it is necessary to expand the types of retail banking services and digitalize and automate existing services." The author considers digitalization and automation as primary factors in improving the quality, competitiveness, and scale of retail banking services, particularly retail lending.[9]

According to researcher N. Ikramova, "the development of bank card circulation, the introduction of scoring-based lending systems, the gradual expansion of services such as internet banking, mobile banking, and SMS banking, as well as the improvement of money transfer and electronic payment services, determine the prospects for the development of retail banking services in the republic." Thus, the author highlights the importance of technological innovation and electronic banking infrastructure in enhancing retail banking services.

Materials and Method

The study is based on an analysis of the current state and development trends of bank lending practices in Uzbekistan. The research uses official statistical data and analytical materials published by the Central Bank of the Republic of Uzbekistan, as well as relevant reports and regulatory documents concerning the banking sector. The empirical analysis covers the recent period and focuses on changes in the volume and structure of bank lending, lending to individuals and legal entities, sectoral distribution of loans, credit portfolio quality, and indicators characterizing the relationship between lending and banks' funding sources.[10]

To achieve the objectives of the study, a combination of general scientific and economic research methods was applied. The "systematic approach" was used to examine bank lending as an interconnected process involving cr"edit resources, borrowers, credit risk, digital technologies, and regulatory requirements. The "comparative analysis method" was applied to identify changes in the volume and structure of bank lending over the analyzed period. The "dynamic analysis method" was used to determine the growth rates and structural changes in the credit portfolios of commercial banks.

The study also applies "structural analysis" to assess the distribution of loans between individuals and legal entities and among major sectors of the economy. This approach makes it possible to identify changes in the concentration of bank lending and determine the sectors that account for a significant share of credit resources. In addition, the study uses "coefficient analysis" to evaluate selected indicators of lending activity, including the loan-to-deposit ratio and the share of non-performing loans in the total credit portfolio.

For assessing the quality of bank lending, particular attention is given to the relationship between credit growth and credit risk. The share of non-performing loans is calculated as follows:
NPL Ratio = (Non-performing Loans / Total Gross Loans) × 100
The "loan-to-deposit ratio (LDR)" is used to assess the relationship between banks' lending operations and their deposit funding:

$$LDR = (Total\ Loans / Total\ Deposits) \times 100$$

A higher LDR may indicate more intensive use of attracted resources for lending, while a persistently high ratio may also indicate the need for closer management of liquidity and funding risks. Therefore, this indicator is considered together with other indicators rather than as an independent measure of lending efficiency.[11]
The research also incorporates a qualitative assessment of modern trends in lending, including digitalization of credit processes, automated credit scoring, remote customer identification, development of online lending, improvement of borrower creditworthiness assessment, and strengthening of risk-based approaches to credit decision-making. The qualitative analysis is used to identify institutional and technological factors influencing the development of bank lending in Uzbekistan.
The research methodology therefore combines quantitative statistical analysis with qualitative assessment of institutional and technological changes in the banking sector. This combination makes it possible not only to identify the main trends in the expansion of bank lending in Uzbekistan but also to determine the factors affecting the quality, accessibility, and sustainability of lending operations and to formulate practical recommendations for further improvement.

Results and Discussion

The data presented in the table show that the total volume of loans issued by commercial banks in Uzbekistan increased from UZS 533.121 trillion as of January 1, 2025, to UZS 604.002 trillion as of January 1, 2026, representing an increase of approximately 13.3%. However, the growth of lending was not uniform across economic sectors. This indicates that significant structural changes occurred in the composition of the banking sector's loan portfolio during the analyzed period.[12]
The most significant change was observed in the industrial sector. Loans allocated to industry decreased from UZS 153.389 trillion to UZS 142.724 trillion, representing a 7% decline. Consequently, the share of industry in the total loan portfolio decreased from 29% to 24%. Thus, despite the overall expansion of bank lending, the absolute volume and relative share of loans directed to industry declined.
In contrast, lending to agriculture increased from UZS 50.303 trillion to UZS 61.055 trillion, representing a 21% increase. Its share in total lending increased from 9% to 10%. The construction sector demonstrated an even higher growth rate: loans increased from UZS 12.960 trillion to UZS 18.889 trillion, or by 46%, while its share increased from 2% to 3%.
Loans to trade and general services increased by 14%, from UZS 38.130 trillion to UZS 43.548 trillion, while lending to transport and communications increased by 3%, reaching UZS 33.732 trillion. Loans allocated to the development of material and technical supply also increased by 13%, from UZS 4.213 trillion to UZS 4.748 trillion.
One of the most important trends is the rapid expansion of retail lending to individuals. Loans to individuals increased from UZS 177.532 trillion to UZS 220.283 trillion, representing a 24%

increase. As a result, the share of loans to individuals in the total credit portfolio increased from 33% to 36%. This demonstrates the growing importance of retail lending in the credit activities of commercial banks in Uzbekistan.

At the same time, Table 1. loans allocated to other sectors increased from UZS 61.463 trillion to UZS 77.154 trillion, representing a 26% increase, while their share increased from 12% to 13%. In contrast, lending to the housing and communal services sector decreased by 20%, from UZS 2.324 trillion to UZS 1.870 trillion.[13]

Table 1. Sectoral Share of Commercial Bank Loans

Economic sectors	01.01.2025	Share, %	01.01.2026	Share, %	Change, %
Total loans	533,121	100%	604,002	100%	**13%**
Industry	153,389	29%	142,724	24%	**−7%**
Agriculture	50,303	9%	61,055	10%	**21%**
Construction	12,960	2%	18,889	3%	**46%**
Trade and general services	38,130	7%	43,548	7%	**14%**
Transport and communications	32,808	6%	33,732	6%	**3%**
Development of material and technical supply	4,213	0.8%	4,748	0.8%	**13%**
Housing and communal services	2,324	0.4%	1,870	0.3%	**−20%**
Individuals	177,532	33%	220,283	36%	**24%**
Other sectors	61,463	12%	77,154	13%	**26%**

Overall, the analysis demonstrates that Uzbekistan's bank lending practices are characterized not only by an increase in the overall volume of lending but also by structural changes and diversification of the credit portfolio. In particular, lending to individuals, construction, agriculture, trade, and services increased at relatively high rates. At the same time, the share of industry in the total credit portfolio declined from 29% to 24%.

Table 2. These trends indicate that further improvement of bank lending practices should focus on ensuring a more balanced allocation of credit resources across economic sectors, expanding financing for industrial projects and activities generating higher added value, improving credit-risk assessment in agriculture and construction, and strengthening debt-burden monitoring in retail lending. Such an approach would contribute not only to quantitative growth in bank lending but also to the formation of a higher-quality, sustainable, and diversified credit portfolio.[14]

Table 2. Structure and Dynamics of Commercial Bank Loans by Borrower Category and Loan Type

Indicator	01.01.2025	01.01.2026	Change, %
Total outstanding loans	533,121	604,002	13%
Outstanding loans to individuals	177,532	220,283	24%
Mortgage loans	67,730	79,396	17%
Microloans	42,369	48,863	15%
Auto loans	40,152	39,696	−1%
Other consumer loans	566	492	−13%

Education loans	5,858	6,932	18%
Loans allocated for business development	19,523	40,474	107%
Other loans	1,334	4,430	232%
Outstanding loans to legal entities	355,589	383,720	8%
Loans to non-credit-organization legal entities	330,211	359,777	9%
Leasing and factoring	2,767	3,842	39%
Interbank loans	715	653	−9%
Microcredits	17,111	14,680	−14%
Syndicated loans	4,785	4,768	−0.3%

Note: Loan amounts are presented in UZS billion.

Source: Compiled by the authors based on data from the Central Bank of the Republic of Uzbekistan.

The data in Table 2 demonstrate that the total outstanding loan portfolio of commercial banks increased from UZS 533.121 trillion as of January 1, 2025, to UZS 604.002 trillion as of January 1, 2026, representing a 13% increase. Both lending to individuals and legal entities expanded, although the growth rate of retail lending was considerably higher.

The outstanding volume of loans to individuals increased from UZS 177.532 trillion to UZS 220.283 trillion, or by 24%. The main components of retail lending also demonstrated positive dynamics. Mortgage lending increased by 17%, from UZS 67.730 trillion to UZS 79.396 trillion, while microloans increased by 15%, reaching UZS 48.863 trillion. Education loans increased by 18%, from UZS 5.858 trillion to UZS 6.932 trillion.

A particularly significant trend is the expansion of loans allocated for business development. Their volume more than doubled, increasing from UZS 19.523 trillion to UZS 40.474 trillion, or by 107%. This indicates growing attention to financing entrepreneurial activity and improving access to bank financing for business development.

At the same time, some types of retail lending experienced a decline. Auto loans decreased slightly by 1%, from UZS 40.152 trillion to UZS 39.696 trillion, while other consumer loans declined by 13%. This may indicate changes in the structure of household demand for different types of credit products.

The volume of loans to legal entities increased from UZS 355.589 trillion to UZS 383.720 trillion, representing an 8% increase. Within this category, loans to legal entities other than credit organizations increased by 9%, from UZS 330.211 trillion to UZS 359.777 trillion. This confirms that corporate lending continues to represent the largest component of the banking sector's loan portfolio.

Significant changes were also observed in alternative forms of corporate financing. Leasing and factoring operations increased by 39%, from UZS 2.767 trillion to UZS 3.842 trillion. This expansion indicates the growing role of non-traditional financing instruments in supporting business activity and diversifying the financial services offered by commercial banks.

In contrast, interbank lending decreased by 9%, while microcredits provided within the legal-entity segment declined by 14%. The volume of syndicated loans remained relatively stable, decreasing only slightly by 0.3%.

Overall, the analysis demonstrates that the development of commercial bank lending in Uzbekistan during 2025–2026 was characterized by continued expansion and structural diversification. The most notable feature was the faster growth of lending to individuals compared with legal entities, with retail loans increasing by 24% compared with 8% growth in corporate lending.

The 107% increase in loans allocated for business development is particularly significant, as it reflects the expanding role of bank financing in supporting entrepreneurial activity. The growth of mortgage lending, microloans, education loans, leasing and factoring also demonstrates increasing diversification of credit products.

At the same time, the decline in auto loans, consumer loans, interbank loans, and microcredits within the corporate segment indicates that credit demand and lending dynamics differ substantially across individual financial products.

Therefore, further improvement of lending practices in Uzbekistan should focus not only on increasing the overall volume of credit but also on diversifying credit products, improving borrower assessment, strengthening credit-risk management, expanding alternative financing instruments, and ensuring sustainable growth of business and retail lending. This would contribute to improving the quality and efficiency of the banking sector's credit portfolio.[15]

Conclusion

The study of modern bank lending practices in Uzbekistan demonstrates that the country's banking sector is experiencing significant quantitative and structural changes. During the period under review, the total outstanding loan portfolio of commercial banks increased from UZS 533.121 trillion to UZS 604.002 trillion, representing a 13% increase. At the same time, lending to individuals increased by 24%, while lending to legal entities increased by 8%. These changes indicate the growing role of retail lending alongside the continued importance of corporate financing.

The sectoral analysis shows that the expansion of lending has not been uniform across the economy. Lending to agriculture increased by 21%, construction by 46%, trade and general services by 14%, while lending to individuals increased by 24%. At the same time, the share of industry in the total credit portfolio declined from 29% to 24%. This suggests the need for a more balanced allocation of credit resources, particularly toward productive sectors and projects capable of generating sustainable economic value.

The analysis of individual credit products also identified several important trends. Mortgage loans increased by 17%, microloans by 15%, and education loans by 18%. Particularly notable was the 107% increase in loans allocated for business development. Leasing and factoring operations also increased by 39%, indicating the growing importance of alternative financing instruments. These developments demonstrate the gradual diversification of lending products in the Uzbek banking sector.

Based on the findings, further improvement of bank lending practices in Uzbekistan should focus on several interconnected areas. First, banks should strengthen risk-based credit assessment by improving the evaluation of borrowers' repayment capacity, cash flows, debt burden, and financial history. Second, greater attention should be given to credit portfolio diversification in order to reduce excessive concentration in individual sectors or borrower categories. Third, the development of digital lending technologies, automated credit scoring, and data-driven decision-making should be accompanied by appropriate mechanisms for managing model, fraud, cybersecurity, and consumer-protection risks.

Fourth, commercial banks should further develop long-term and stable funding sources, particularly deposits, in order to ensure a sustainable relationship between lending growth and available funding. Fifth, the expansion of lending to businesses should be supported by the wider use of leasing, factoring, syndicated lending, and other financing instruments. Such diversification can reduce

dependence on traditional credit products and improve access to financing for enterprises with different financial needs.

Finally, the future development of bank lending should be assessed not only by the growth of the loan portfolio but also by the quality, efficiency, accessibility, diversification, and risk sustainability of lending operations. A balanced combination of credit expansion, effective risk management, digital transformation, portfolio diversification, and sustainable funding can contribute to strengthening the efficiency and resilience of Uzbekistan's banking sector and support the financing of sustainable economic growth.

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