



TRANSFORMATION OF THE FINANCIAL AND BANKING SYSTEM IN THE DIGITAL ECONOMY

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Abstract:

This article examines the level of development of the financial and banking system in the context of the digital economy, its transformation, and future prospects. The introduction of digital technologies in the banking sector, the importance of electronic payment systems, and modern forms of financial services are analyzed. Additionally, directions for ensuring financial stability in the context of the digital economy are presented.

Keywords: Digital economy, financial and banking system, electronic banking services, fintech, blockchain, digital payments, transformation, online banking system.

Introduction

In the context of economic globalization, one of the most pressing issues of today is the comprehensive reform and strengthening of the stability of the financial and banking system, enhancing public and foreign investor confidence in the banking sector, and expanding the range and scope of banking services by widely utilizing information and communication technologies.

In today's digital era, consistent reforms are being implemented in the financial and banking sector as well. Electronic payment systems and online banking services are being introduced to modernize banking services and deliver them to the population in a more convenient manner. Based on the "Digital Economy



Development Strategy" adopted by the President of the Republic of Uzbekistan, the transformation of the banking system is accelerating. This, in turn, significantly enhances the possibilities for organizing banking services in a prompt and efficient manner.

The banking sector is considered one of the branches of the economy in which modern technologies are widely applied. In recent years, the industry has witnessed the introduction of new computer technologies, credit cards, and significant innovations in the financial and monetary markets. Research indicates that banks are actively developing new advertising channels that attract attention through social networks, mobile internet, and even online games.

A bank is a commercial institution and a legal entity that carries out a set of activities defined as banking operations, including:

- accepting deposits from legal entities and individuals and using the collected funds for lending or investment purposes, subject to risk;
- executing payments.

In the course of their activities, banks perform the following banking operations:

- opening and managing accounts for individuals and legal entities, including correspondent banks, and conducting settlements through these accounts;
- attracting deposits;
- issuing loans from their own or attracted funds under the conditions of repayment, interest payment, and fixed terms.

Literature Review and Research Methodology

Scientific perspectives on the digital economy and the financial-banking system are reflected in the research of various scholars, including N. Negroponte, J. Howkins, Y. Benkler, S.S. Gulyamov, and others. For example, in his book *Being Digital*, N. Negroponte emphasizes the future trends of the digital economy [1]. J. Howkins, in *The Creative Economy*, discusses innovative economic activities [2]. Y. Benkler, in his scholarly work *The Wealth of Networks*, provides insights into the impact of the global network economy on the financial sector [3]. Among Uzbek scholars, S.S. Gulyamov, in his scientific study *Blockchain Technologies in the Digital Economy*, highlights the specific features of the digital financial system [4].



The methodological basis of this research is formed on the basis of the Resolution of the President of the Republic of Uzbekistan dated March 23, 2018, "On Additional Measures to Increase the Accessibility of Banking Services," as well as the Presidential Decree No. 3832 dated July 3, 2018, "On Measures for the Development of the Digital Economy in the Republic of Uzbekistan." Throughout the study, methods such as comparative analysis, statistical analysis, synthesis, and general analytical techniques were employed.

Analysis and Findings

The introduction of digital technologies into the banking system plays a crucial role in improving the quality of financial services and enhancing convenience for customers. Through online banking services, opportunities are expanding for providing loans to the population, processing payments, and managing investment operations. In 2020, the global volume of transactions conducted through digital payment systems reached USD 6.7 trillion, and this figure is projected to exceed USD 10 trillion by 2025. In Uzbekistan, too, the demand for e-commerce and digital payment systems is steadily increasing. In 2022, the volume of electronic payments in the country exceeded 50 trillion soums, which is 2.5 times more than in 2019.

Today, customers can manage their bank accounts remotely and in real time using mobile and electronic communication tools. Although such services have been introduced relatively recently, they have rapidly gained popularity. In particular, over the past five years, the number of users of these services has increased by nearly 90 percent, reaching over 1.1 million clients. The use of plastic cards is also expanding. Over the last five years, the volume of payments made through terminals has increased fivefold. With the implementation of advanced information technologies in the banking sector, the speed, quality, and reliability of services provided by commercial banks are also improving.

In the context of increasing financialization and digitalization in the global economy, significant progress has been made in recent years regarding the transformation of Uzbekistan's national banking system. This issue was specifically addressed at a meeting chaired by the President of the Republic of



Uzbekistan on November 20 of this year, which was dedicated to discussing the transformation and privatization processes in the banking sector.

As a result of the reforms carried out in the sector, over the past three years, the capital of banks has increased by 1.8 times, and the annual volume of loan disbursements has doubled. For the first time, four banks issued Eurobonds and attracted USD 1 billion from international capital markets. A strategic foreign investor was engaged in Ipoteka Bank. Furthermore, 13 new private banks were established, and reputable banks from Hungary, Kazakhstan, and Georgia began operating in Uzbekistan. The volume of online banking services grew by 2.7 times.

In the context of the rapid digital transformation of traditional foreign banks, the transformation of commercial banks in Uzbekistan plays a critical role in entering global competition. In this regard, the transformation of private banks is primarily focused on digital transformation, while the transformation of state-owned commercial banks is being implemented in two key directions. The first is significantly increasing the share of private banks in total banking assets, and the second is the implementation of digital transformation practices.

As noted above, systematic efforts are underway in these areas. Practical measures aimed at increasing the share of the private sector in the banking system reflect the goal set in the national development strategy—to complete the transformation processes in state-owned commercial banks and increase the share of private sector assets in the banking system to 60 percent by the end of 2026. In addition, the 2.7-fold increase in online banking services represents an initial outcome of the digital transformation of the banking system.

As of September 1, 2023, banks with state participation accounted for 69 percent of total banking assets in the Republic of Uzbekistan. Moreover, 67 percent of the capital in commercial banks is state-owned. Notably, only 35 percent of loans issued by state-owned banks are backed by deposits, while the remaining 65 percent are funded through government resources. In such a context, the profitability of private banks is 3.5 to 4 times higher than that of state-owned banks.

According to the results of the first nine months of 2023, commercial banks earned a net profit of 8.2 trillion soums. It is particularly noteworthy that 8 out of



the top 10 most profitable commercial banks are private. For example, Kapitalbank achieved a net profit of 1.129 trillion soums, Hamkorbank earned 915.2 billion soums, and Trustbank closed the first nine months with 595.5 billion soums in net profit. Only Uzmilliybank, with a net profit of 1.244 trillion soums, exceeded these figures. It is important to emphasize that despite their significantly lower capital compared to state-owned banks, private banks have demonstrated superior profitability.

Conclusions

In conclusion, the transformation of the financial and banking system in the context of the digital economy is an inevitable process and serves as a critical factor in enhancing the efficiency of financial services. The widespread implementation of digital technologies in the banking sector leads to the following key outcomes:

- Increased speed and convenience of financial services;
- Introduction of innovative fintech projects in the banking system;
- Enhanced financial literacy of the population through digital banking services;
- Growth in the volume of monetary circulation via electronic payment systems.

In the future, the following measures are recommended to further develop digital banking systems:

- Strengthening banking services through blockchain-based technologies;
- Improving internet infrastructure to support the growth of e-commerce and online banking;
- Expanding cooperation between banks and fintech companies;
- Enhancing measures for digital financial security.

In Uzbekistan, the digital transformation of the financial and banking system has been defined as one of the priority areas of state policy, and significant progress has already been achieved in this direction. However, it is essential to address challenges such as information security, digital inequality, and the improvement of the regulatory and legal framework during the digital transformation process. Looking ahead, the development of directions such as the introduction of the Open Banking concept, the issuance of a central bank digital currency (CBDC), the provision of personalized financial services, and the advancement of an



ecosystem strategy are expected in Uzbekistan. These developments will contribute to improving the efficiency of the financial and banking system, delivering convenient and high-quality services to clients, and ensuring the sustainable development of the national economy.

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