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CONTENTS

IMPLEMENTATION OF THE IMPROVED METHODOLOGY IN PRACTICE AND ASSESSMENT OF ITS ECONOMIC EFFICIENCY	8
Eshniyazova Yulduz Yuldashbayevna	
EXPERIMENTAL OPTIMIZATION OF DESIGN AND ENERGY PARAMETERS OF A GARLAND-TURBINE MOBILE MICRO HYDROPOWER PLANT FOR FREE-FLOWING WATER	13
Sultonov Sanjarbe, Zokirov Islomjon, Nurillaev Ahadullo, Abdullaev Shavkat	
METHODOLOGY FOR INCREASING THE EFFICIENCY OF CREDIT OPERATIONS IN COMMERCIAL BANKS	19
Djumaniyazov Ikram Karimbaevich	
COMPARATIVE ANALYSIS OF A COMPACT RESIDUAL CONVOLUTIONAL MODEL AND LINEAR REGRESSION FOR IMAGE SUPER-RESOLUTION	27
Husan Arziqulov Normurod o'g'li	
COMPARATIVE EVALUATION OF MACHINE LEARNING ALGORITHMS AND CLASS IMBALANCE HANDLING STRATEGIES FOR CREDIT CARD FRAUD DETECTION	33
Mahmudova Dilnoza Avaz qizi	
DIGITAL TRANSFORMATION OF FINANCIAL RESOURCE MANAGEMENT IN PUBLIC SOCIAL SECTOR INSTITUTIONS	39
Khasanov Tulkin Axmatovich	
WAYS TO ENSURE THE STABILITY OF THE CAPITAL BASE OF COMMERCIAL BANKS	45
Isakov Isobek Janabay's son	
CROSS-DAY EXPERIMENTAL EVIDENCE OF THERMAL-LOAD SHIFTING IN A SOLAR-DRIVEN HYDRONIC RADIANT FLOOR WITH MACROENCAPSULATED RT52 PHASE CHANGE MATERIAL	50
Jurabek Kamolov, Sokhib Temirov, Marjona Makhmudova	
STUDY OF THE TRACTION DYNAMICS OF AN AGGREGATE CONSISTING OF A FRUIT-HARVESTING MACHINE AND ITS TWO-AXLE CONTAINER-CARRYING TRAILER PLATFORM	59
Norchayev Davron, Sardor Nigmatjonov, Norchayev Jaloliddin, Norchayev Rustam	
PRIORITY DIRECTIONS FOR STRENGTHENING THE FINANCIAL STABILITY OF AGRICULTURAL ENTERPRISES	67
Kulmatov Zafar Jumanazarovich	
METHODOLOGICAL APPROACHES TO DEVELOPING UNIVERSITY STUDENTS' DIGITAL COMMUNICATIVE COMPETENCE BASED ON EMOTIONAL INTELLIGENCE	73
Malikakhon Kamiljanova	
SIMULTANEOUS REMOVAL CHARACTERISTICS OF OIL AND HEAVY METAL IONS BY BIOFLOCCULANTS BASED ON THE CELLULOSE-DMAEMA/PEPA COMPOSITE	80
Xayitboeva Dilshoda, Ibragimov Nasrilla, Jumaev Anvarbek	
ECONOMIC ANALYSIS AND DEVELOPMENT STRATEGY OF THE WOOD-POLYMER COMPOSITES MARKET	84
Abdumalikova Zarnigor, Ayubova Indira, Jumaev Anvarbek	
ENERGY UTILIZATION ANALYSIS OF AGRICULTURAL DRYING BASED ON INTEGRATED SOLAR THERMAL AND PHOTOVOLTAIC ENERGY SUPPLY	89
Ibragimov Umidjon, Mirzayarova Sevara, Khujayorova Aziza	
RECENT ADVANCES IN THE SYNTHESIS OF NANOSTRUCTURED MATERIALS FOR ZINC-ION BATTERIES	96
Diyorbek Absattorov, Dilnoza Erimbatova, Murodjon Samadiy	
ENTHALPY-MODEL SELECTION AND PRACTICAL IDENTIFIABILITY OF A MACROENCAPSULATED RT52 RADIANT FLOOR UNDER UNCERTAIN BRANCH FLOW	101
Jurabek Kamolov, Sokhib Temirov, Marjona Makhmudova	
THE IMPORTANCE OF THERMAL ENERGY STORAGE SYSTEMS IN ENHANCING THE EFFICIENCY OF SOLAR DRYERS	110
B. A. Hikmatov, M. S. Mirzaev,	

METHODOLOGY AND PRINCIPLES FOR THE APPLICATION OF ARTIFICIAL INTELLIGENCE IN ADAPTIVE ECONOMIC MODELS OF HIGHER EDUCATION.....	117
O'lmasxo'jayev Zoirxo'ja Abbos o'g'li	
FORECASTING ECONOMIC EFFECTS OF GREEN INNOVATION IN MINING THROUGH COST REDUCTION, ENERGY SAVINGS AND LONG-TERM COMPETITIVENESS.....	122
Kurbanova Mehriniso Nematjanovna	
AN INTELLECTUAL HYBRID MODEL AND FEATURE SPACE FOR NAMED ENTITY RECOGNITION IN KARAKALPAK TEXTS	127
Kalmuratov Bekbosin Kushkinbaevich, Uzakbaev Jangeldi Sabit-uli, Rzambetova Suliwxan Baxtiyarovna	
COMPARATIVE ANALYSIS OF EXISTING METHODOLOGIES FOR ASSESSING THE EFFICIENCY OF LENDING PRACTICE	133
Turdiyev Eralijon Muxtarovich	
STRATEGIC MANAGEMENT OF SERVICE QUALITY: ADAPTING THE GAP MODEL TO SERVICE ENTERPRISES.....	140
Tuxliyev Baxtiyor Maxmaziyayevich	
ORGANISATIONAL AND LEGAL FOUNDATIONS FOR THE DEVELOPMENT OF ISLAMIC FINANCE IN UZBEKISTAN	145
Khodjaev Aziz Shovkatovich	
REGIONAL TRANSMISSION OF MACROECONOMIC SHOCKS AND THE DYNAMICS OF ECONOMIC CONVERGENCE	153
Elyor Nazarov	
PRIORITY DIRECTIONS FOR INCREASING SECTORAL DIVERSIFICATION IN THE ECONOMY OF UZBEKISTAN'S REGIONS	159
Mamarasulov Nozimjon Mamajonovich	
THE ROLE OF STATE STRATEGIC RESERVES IN ENSURING FOOD SECURITY: POLICY EVOLUTION AND REASSESSMENT OF THE MILITARY SUPPLY SYSTEM IN THE CASE OF UZBEKISTAN.....	165
Bazarov Nazirjon Sobirovich	
LOCAL ADAPTATION OF MRA-FW FOR CARDIOVASCULAR RISK ASSESSMENT IN ARAL SEA REGION INPATIENTS.....	170
Uteuliev Niyetbay, Saytov Aralbek, Saytov Kamiljan	
GREEN FINANCE IN UZBEKISTAN: FROM SOVEREIGN BONDS TO FOREIGN DIRECT INVESTMENT IN RENEWABLE ENERGY (2021–2026).....	176
Temirova Nozima Shuhrat qizi	
IMPROVING THE ACCOUNTING OF REVENUE, EXPENSES AND FINANCIAL RESULTS IN PRIVATE HIGHER EDUCATION INSTITUTIONS	182
Saidova Kamolat Farhodovna	
THE IMPACT OF DIGITAL TRANSFORMATION ON SERVICE DELIVERY EFFICIENCY IN LOCAL HIGHER EDUCATION INSTITUTIONS.....	187
Masaidova Marguba Muratovna	
INVESTIGATION OF METAL REFINING DURING ELECTRIC ARC WELDING.....	195
Ermatov Ziyadulla, Rakhmatullaeva Nozima, Galperin Leonid	
STATE AND INSTITUTIONAL SUPPORT FOR THE EXPORT ACTIVITIES OF CONSTRUCTION ENTERPRISES.....	200
Mirzayeva Khulkar Abduladjon kizi	
ECONOMIC DIPLOMACY AS THE EXTERNAL TIER OF INVESTMENT GOVERNANCE: INSTITUTIONAL DESIGN AND IMPLEMENTATION GAPS IN UZBEKISTAN.....	207
Imamov Javokhir	
METHODS FOR IMPROVING THE EFFICIENCY OF PRODUCTION RESOURCE UTILIZATION IN AGRICULTURE	213
Nurxonov Nurkomil Qahramon ugli	
COMPARATIVE ANALYSIS OF MACHINE LEARNING ALGORITHMS FOR AUTOMATIC TOPIC CLASSIFICATION OF KARAKALPAK NEWS TEXTS.....	218
Asenbayev Nurbek Adilbayevich	

JOINT OPTIMISATION OF EXTERNAL-WALL INSULATION THICKNESS AND RADIANT-FLOOR HEAT OUTPUT FOR A SOLAR-CONCENTRATOR-HEATED DWELLING IN THE CLIMATE OF BUKHARA.....	223
Jurabek Kamolov, Sokhib Temirov, Marjona Makhmudova	
IMPROVING THE METHODOLOGY FOR ECONOMIC ANALYSIS OF CONSTRUCTION SERVICE COSTS AT SOCIAL FACILITIES	234
Gapparov Azim Kayumovich	
SPATIOTEMPORAL TRENDS IN WATER QUALITY ALONG THE TASHKENT URBAN REACH OF THE CHIRCHIK RIVER: A PAIRED MONITORING ANALYSIS FOR 2017–2024	241
Ruziev Dilmurod, Matkaziye Dilshod, Begzod Burkhonov, Abdurakhimova Durdona, Yuldosheva Saodat	
ECONOMIC REGULATION OF ENVIRONMENTAL EXTERNALITIES IN CONSTRUCTION INDUSTRY ENTERPRISES: A GRADUATED PAYMENT-SUBSIDY MECHANISM AND FORECASTING APPROACH	251
Xolov Xamza Tojiddinovich	
DIFFERENTIATED APPROACHES TO INCENTIVIZING THE TRANSITION OF SMALL BUSINESSES TO THE FORMAL ECONOMY	260
Yunusov Marat Erkinovich	
THE EFFECTIVENESS OF CORPORATE GOVERNANCE IN BANKS AND ITS IMPACT ON FINANCIAL PERFORMANCE AND RISKS	266
Susanna S. Alieva	
GREEN INNOVATION-INVESTMENT EFFECTIVENESS AND STRATEGIC FORECASTING IN THE CABLE INDUSTRY: EVIDENCE FROM UZKABEL.....	273
Igamberdiev Karimberdi	
LEVEL OF ADAPTATION OF PUBLIC INFRASTRUCTURE FOR PERSONS WITH DISABILITIES IN BUKHARA.....	280
Bomurodova Madina Voxidjon qizi	
FREQUENCY-DEPENDENT ASSESSMENT OF FACADE SOUND INSULATION REQUIREMENTS UNDER NOISE EXPOSURE FROM ABOVE-GROUND METRO SYSTEMS.....	285
Zafar Tulaganov, Rakhmatullo Pirmatov	
ADAPTIVE TIKHONOV REGULARIZATION FOR ROBUST ENERGY BALANCE OPTIMIZATION IN PV-BESS SYSTEMS UNDER SEVERE ENVIRONMENTAL DISTURBANCES.....	294
Gulayim Baymuratova Tajimurat kizi	
EFFECT OF SODIUM CHLORIDE DOSAGE ON THE ROASTING AND HYDROCHLORIC ACID LEACHING OF LEAD CAKE FROM ZINC PRODUCTION	301
Haqberdiyev Dilshod, Eshonkulov Uchkun	
ECOLOGICAL ENTREPRENEURSHIP AS A STRATEGIC FACTOR FOR ENSURING ECONOMIC SECURITY.....	306
Azamat Tolibjonovich Khalimov	
FINANCIAL SUPPORT FOR SMALL BUSINESSES IN THE GREEN ECONOMY: MECHANISMS, INSTRUMENTS AND DEVELOPMENT PRIORITIES IN UZBEKISTAN	314
Yesmurzaev Joldasbay Tangatarovich	
ECONOMIC DIVERSIFICATION IN UZBEKISTAN: CHALLENGES AND DEVELOPMENT PROSPECTS	321
Baymuradov Shokhruxh, Mahsutaliyev Muhammadkodir	
PROSPECTS FOR REDUCING DEPENDENCE ON BANK CREDIT THROUGH THE DEVELOPMENT OF THE CAPITAL MARKET IN UZBEKISTAN	328
Ziyodullayev Dilshod Sherzodovich	

PROSPECTS FOR REDUCING DEPENDENCE ON BANK CREDIT THROUGH THE DEVELOPMENT OF THE CAPITAL MARKET IN UZBEKISTAN

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Abstract. This article analyzes the bank-credit-dominated financing model in Uzbekistan and the scope for improving its balance by deepening the capital market. The study relies on official data from the Central Bank, the National Agency for Prospective Projects (NAPP), the National Statistics Committee, the IMF, the World Bank, and the ADB. Statistical, comparative, empirical-descriptive, and SWOT analysis methods were applied. The results show that the banking sector accounts for 94.6 percent of financial system assets, while state-owned commercial banks held 63 percent of bank assets and 67 percent of loans at the end of 2025. At the same time, during 2023–2025, equity issuance rose from UZS 189.7 trillion to UZS 265.1 trillion, and corporate bond issuance rose from UZS 1.06 trillion to UZS 3.93 trillion. The article offers proposals on lowering issuers' costs of market access, developing credit rating and guarantee infrastructure, broadening the institutional investor base, protecting investors, and aligning state bank reform with market mechanisms.

Keywords: capital market, bank credit, financial intermediation, corporate bonds, equities, institutional investors, state-owned commercial banks, financing diversification.

Annotatsiya. Ushbu maqolada O'zbekistondagi bank kreditlari ustunlik qiluvchi moliyalashtirish modeli va kapital bozorini chuqurlashtirish orqali uning mutanosibligini oshirish imkoniyatlari tahlil qilinadi. Tadqiqot Markaziy bank, Istiqbolli loyihalar milliy agentligi (ILMA), Milliy statistika qo'mitasi, Xalqaro valyuta jamg'armasi (XVJ), Jahon banki va Osiyo taraqqiyot bankining (OTB) rasmiy ma'lumotlariga tayanadi. Ishda statistik, qiyosiy, empirik-tavsifiy va SWOT-tahlil usullari qo'llanilgan. Natijalar shuni ko'rsatadiki, moliya tizimi aktivlarining 94,6 foizi bank sektoriga to'g'ri keladi, 2025-yil yakunlariga ko'ra esa davlat tijorat banklari bank aktivlarining 63 foizini va kreditlarning 67 foizini ushlab turgan. Shu bilan birga, 2023–2025-yillarda aksiyalar emissiyasi 189,7 trillion so'mdan 265,1 trillion so'mga, korporativ obligatsiyalar emissiyasi esa 1,06 trillion so'mdan 3,93 trillion so'mga oshdi. Maqolada emitentlarning bozorga chiqish xarajatlarini kamaytirish, kredit reytingi va kafolat infratuzilmasini rivojlantirish, institutsional investorlar bazasini kengaytirish, investorlarni himoya qilish va davlat banklari islohotini bozor mexanizmlariga moslashtirish bo'yicha takliflar berilgan.

Kalit so'zlar: kapital bozori, bank krediti, moliyaviy vositachilik, korporativ obligatsiyalar, aksiyalar, institutsional investorlar, davlat tijorat banklari, moliyalashtirishni diversifikatsiya qilish.

Аннотация. В данной статье анализируется модель финансирования с преобладанием банковского кредитования в Узбекистане, а также возможности улучшения её баланса за счёт углубления рынка капитала. Исследование опирается на официальные данные Центрального банка, Национального агентства перспективных проектов (НАПП), Национального комитета по статистике, МВФ, Всемирного банка и АБР. В работе применены методы статистического, сравнительного, эмпирико-описательного и SWOT-анализа. Результаты показывают, что на банковский сектор приходится 94,6 % активов финансовой системы, при этом на конец 2025 года государственные коммерческие банки удерживали 63 % банковских активов и 67 % кредитов. В то же время за 2023–2025 годы объём выпуска акций вырос с 189,7 трлн сумов до 265,1 трлн сумов, а выпуск корпоративных облигаций — с 1,06 трлн сумов до 3,93 трлн сумов. В статье представлены предложения по снижению издержек эмитентов при выходе на рынок, развитию инфраструктуры кредитных рейтингов и гарантий, расширению базы институциональных инвесторов, защите инвесторов и согласованию реформы государственных банков с рыночными механизмами.

Ключевые слова: рынок капитала, банковский кредит, финансовое посредничество, корпоративные облигации, акции, институциональные инвесторы, государственные коммерческие банки, диверсификация финансирования.

INTRODUCTION

Commercial banks remain the main source of financing for enterprises and households in Uzbekistan's economy. Bank credit plays an important role in supporting investment activity; however, a high degree of reliance on a single financing channel may lead to the concentration of funding costs, maturities, and risks. In a diversified financial system, bank credit is complemented by equities, corporate bonds, government securities, investment funds, insurance capital, leasing, factoring, and venture financing. In this sense, the purpose of the study is not to reduce the importance of the banking sector but to create a sustainable financial balance by developing the capital

market and non-bank instruments.

The relevance of the research is clearly reflected in official indicators. The IMF's detailed assessment of Uzbekistan's financial sector notes that, as of July 1, 2024, bank assets accounted for 94.6 percent of total financial system assets. At the end of 2023, banking system assets were equal to 55 percent of GDP and loans to 40 percent of GDP [1]. At the end of 2025, the nine state-owned commercial banks accounted for approximately 63 percent of banking system assets, 67 percent of loans, and more than half of deposits [2]. These indicators highlight opportunities to further develop long-term market-based financing mechanisms.

Positive shifts are being observed in the capital market. According to NAPP data, equity issuance increased from UZS 189.7 trillion in 2023 to UZS 265.1 trillion in 2025, while corporate bond issuance grew from UZS 1.06 trillion to UZS 3.93 trillion. The total volume of trading on the stock exchange rose from UZS 2.9 trillion to UZS 17.6 trillion in 2023–2025, an increase of nearly sixfold [3]. When compared with the scale of the banking system, this growth indicates further opportunities to expand the capital market's contribution to financing the economy.

The aim of the study is to assess the current state of the capital market in Uzbekistan and its potential to diversify financing sources alongside bank credit, identify areas for institutional development, and formulate practical proposals. The objectives are as follows: to describe the bank-centered financing model; to comparatively analyze indicators of the equity and bond markets; to assess, through SWOT analysis, the factors contributing to the banking sector's leading position and those influencing capital market development; and to formulate measurable policy recommendations based on international experience.

LITERATURE REVIEW

The relationship between financial system structure and economic growth has long been a central topic in the scholarly literature. Levine argues that financial intermediaries and markets influence economic growth by processing information, allocating risk, mobilizing savings, and improving corporate governance [4]. Demirgüç-Kunt and Maksimovic empirically show that firms' access to external financing depends significantly on the development of financial and legal institutions [5]. This approach requires viewing the capital market not merely as a trading venue but as a mechanism that provides long-term funds for firms and a way for investors to diversify risk.

In the debate between bank-based and market-based systems, Allen and Gale emphasize that the structure of financial institutions should be assessed together with a country's legal environment, the quality of corporate governance, and information infrastructure [6]. Thus, developing the capital market is not a simple substitution for bank credit; it is an institutional process that requires transparency, reliable auditing, protection of investor rights, clearing and settlement systems, and professional intermediaries.

The conclusions of international institutions on Uzbekistan confirm these theoretical views. The World Bank–IMF FSAP report notes the significant role of banks and microfinance institutions in the financial sector and identifies opportunities to enhance the accessibility and cost-effectiveness of corporate bond financing for private companies. The report recommends assessing credit enhancement or guarantee mechanisms for corporate bonds [7]. The ADB's financial markets program, for its part, is aimed at supporting reforms in regulation, market infrastructure, and the demand and supply sides [8].

The IMF highlights opportunities to strengthen market-based mechanisms in the financial sector, gradually improve the allocation of credit resources through market-oriented approaches, and enhance the corporate governance and commercial orientation of state-owned banks [2; 9]. Therefore, in national research, it is important to evaluate capital market development not only by issuance volume but also by firms' cost of raising funds through the market, secondary market liquidity, the investor base, and issuer transparency.

RESEARCH METHODOLOGY

The object of the study is the capital market and banking system of Uzbekistan; its subject is the interrelationship among bank credit, equities, corporate bonds, and the institutional mechanisms regulating them. The database comprises the Central Bank's banking statistics [11–12], NAPP capital market data, National Statistics Committee publications on the services sector and GDP [13], and materials from the IMF, the World Bank, and the ADB.

Four methods were combined in the study. First, the statistical-descriptive method was used to describe the dynamics of bank assets, loans, deposits, and equity and bond issuance. Second, comparative analysis was used to compare the scale of the banking sector with the main indicators of the capital market. Third, in the empirical analysis, the chain “bank dominance—capital market depth—firms' access to financing” was interpreted on the basis of official aggregate indicators. Fourth, SWOT analysis was used to identify the internal and external factors of the system.

The econometric approach is expressed conceptually by the following model:

$$CM_t = \alpha + \beta_1 \text{BankCredit}_t + \beta_2 \text{GDP}_t + \beta_3 \text{Rate}_t + \beta_4 \text{Inst}_t + \varepsilon_t.$$

Here, CM — capital market depth (for example, bond issuance/GDP or exchange trading/GDP), BankCredit — the ratio of bank credit to GDP, GDP — economic activity, Rate — the interest rate, Inst — an indicator of institutional quality. However, owing to the shortness of openly available and comparable annual series and methodological breaks in the indicators, regression coefficients were not estimated in this article. Instead, an empirical-descriptive and comparative analysis based on official data was carried out. This limitation requires that the article's results be interpreted not as a strict causal claim but as an evidence-based policy conclusion.

ANALYSIS AND RESULTS

Central Bank data show the large scale of the banking system. As of January 1, 2025, total assets of commercial banks stood at UZS 769.3 trillion, loans at UZS 533.1 trillion, and deposits at UZS 308.7 trillion [10]. On July 1, 2025, assets reached UZS 852.2 trillion, loans UZS 555.1 trillion, and deposits UZS 355.6 trillion [11]. As of October 1, 2025, assets were UZS 866.8 trillion, loans UZS 582.2 trillion, and deposits UZS 371.5 trillion [12]. The high loan-to-deposit ratio heightens the need to diversify banks' resource base, expand market financing, and channel long-term savings into the capital market.

Table 1. Key indicators of commercial banks, 2025. Source: author's calculations based on Central Bank data¹.

Indicator	Jan 1, 2025	Jul 1, 2025	Oct 1, 2025
Total bank assets, UZS trillion	769.3	852.2	866.8
Total loans, UZS trillion	533.1	555.1	582.2
Total deposits, UZS trillion	308.7	355.6	371.5
Loan-to-deposit ratio, %	172.7	156.1	156.7

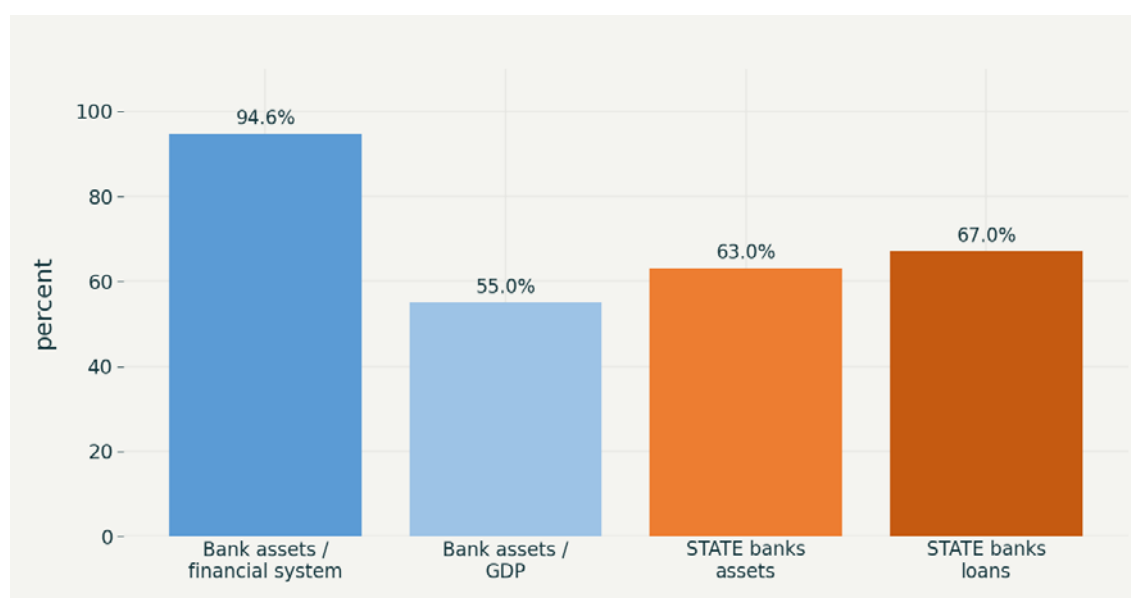


Figure 1. Dominance of the Banking Sector in Financial Intermediation².

Table 1 and Figure 1 confirm the bank-centric nature of the financial system. The activity of banks is not a problem in itself: banks remain the core institutions for payments, deposits, and lending. The problem arises when alternative instruments are not sufficiently developed. Under such conditions, even large enterprises rely on bank credit for long-term investment; this may intensify interest rate risk, refinancing risk, and constraints on the allocation of credit resources.

Capital market indicators are showing growth momentum. In 2023–2025, equity issuance increased by about 39.7 percent. Corporate bond issuance increased more than 3.7 times over the same period. By July 1, 2026, bond issuance was reported to have exceeded UZS 7 trillion [13]. However, the volume of bonds is still small compared with the scale of bank credit. This is explained not only by demand but also by issuance costs, credit ratings,

1 Source: Compiled and calculated by the author based on data from the Central Bank of the Republic of Uzbekistan on the main indicators of commercial banks as of January 1, July 1, and October 1, 2025 [10–12].

2 Source: Compiled by the author based on the International Monetary Fund's Financial Sector Assessment Program and Article IV Consultation reports on Uzbekistan [1, 2].

transparency, secondary market liquidity, and an insufficiently developed institutional investor base.

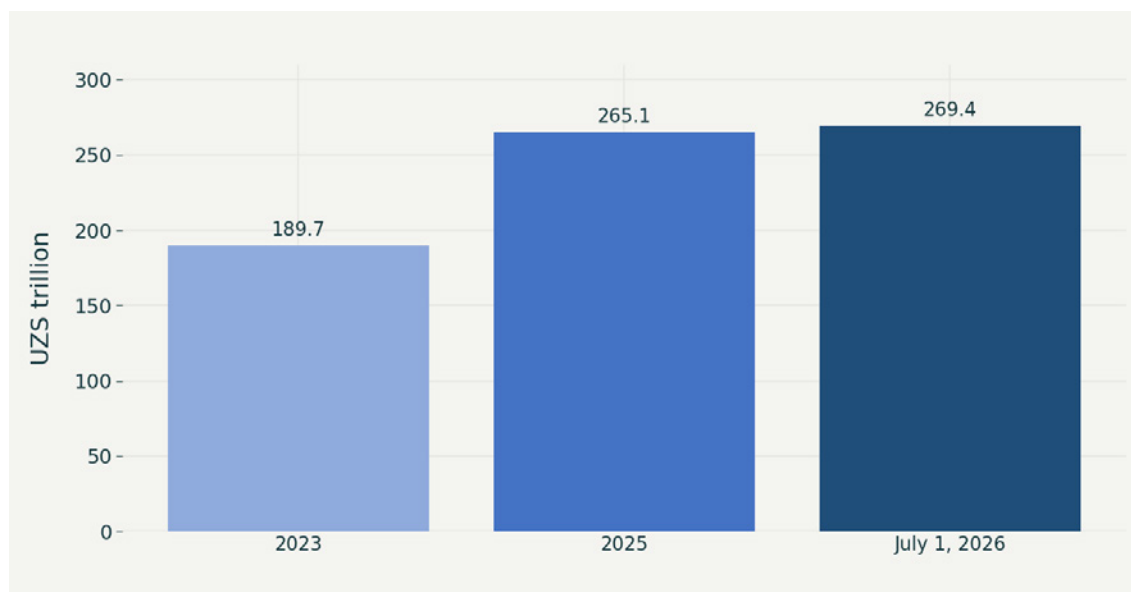


Figure 2. Volume of equity issuance. Source: compiled by the author based on NAPP data³.

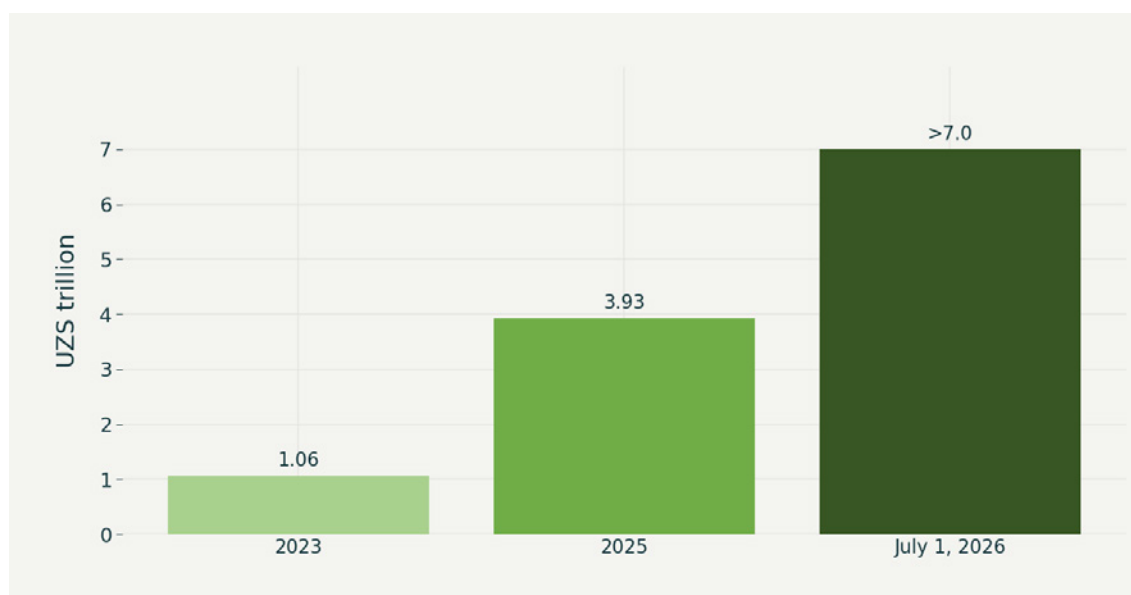


Figure 3. Volume of Corporate Bond Issuance⁴.

The economic substance of this growth is that, unlike bank credit, the capital market allows firms to distribute risk among various investors and to match the financing maturity to the project's cash flow. For example, for long-cycle projects such as energy, transport, housing, renewable energy, or export-oriented enterprises, 5–10-year bonds may be a more suitable instrument than short-term credit. The effective functioning of such instruments depends on reliable financial statements, audit opinions, credit quality assessments, and sufficient liquidity opportunities for investors.

Introducing a “credit enhancement” mechanism for corporate bonds. The World Bank notes that such a mechanism can reduce an issuer's cost of raising funds by investing in or guaranteeing bond issues. In Uzbekistan, it would be appropriate to initially establish a partial guarantee fund or a credit guarantee pilot for export-oriented, energy-efficient, and infrastructure projects. Indicators for assessing the outcome include the volume of bonds issued with guarantees, the coupon spread relative to credit, and the average maturity of funds raised.

³ Source: Compiled by the author based on data from the National Agency for Prospective Projects of the Republic of Uzbekistan on capital market development and securities issuance [3, 14].

⁴ Source: Compiled by the author based on data from the National Agency for Prospective Projects of the Republic of Uzbekistan on capital market development and corporate bond issuance [3, 14].

In addition, creating a simplified yet transparent “SME bond” segment for small and medium-sized issuers. It should apply standardized issuance documents, a digital prospectus, simplified listing requirements, a small nominal value, and a market-maker mechanism. This will provide an additional financing source alongside bank credit, especially for fast-growing companies. Simplification should be accompanied by appropriate investor protection measures, including financial reporting, risk disclosure, and independent monitoring.

Building demand from institutional investors. A reliable, liquid market for securities with various maturities needs to be created for insurance companies, investment funds, and long-term savings institutions. Regularly forming a government securities yield curve can serve as a benchmark for pricing corporate bonds. At the next stage, green, social, sukuk, and infrastructure bonds should be supported.

Aligning state bank reform with capital market policy. Further clarification of the roles of preferential lending, state programs, and market-based commercial credit would contribute to the balanced development of financial markets. The corporate governance of state-owned banks can be further enhanced through independent directors, risk management, and transparency standards. Taking into account the IMF's recommendations, gradually expanding market-based participation in the financial sector and strengthening the commercial orientation of state-owned banks would support the complementary development of banking and capital market financing [14].

Protecting investors and increasing secondary market liquidity. For this purpose, further improvements in issuers' quarterly disclosure, related-party transaction regulations, independent auditing, electronic voting, market-making institutions, and market integrity oversight are recommended. NAPP, the Central Bank, and the stock exchange should jointly publish an open “Capital Market Dashboard” covering issuances, the number of investors, secondary trading, spreads, and defaults.

CONCLUSION AND SUGGESTIONS

The study highlighted the leading position of the banking sector in Uzbekistan's financial system: in mid-2024, bank assets accounted for 94.6 percent of total financial system assets, and at the end of 2025, state-owned commercial banks held 63 percent of bank assets and 67 percent of loans. Banks remain a necessary core institution for the economy, while further capital market development would expand opportunities for enterprises to access long-term financing and diversify financial risks.

Positive developments are observed in the capital market: in 2023–2025, equity issuance rose from UZS 189.7 trillion to UZS 265.1 trillion, corporate bond issuance increased from UZS 1.06 trillion to UZS 3.93 trillion, and stock exchange trading expanded nearly sixfold. These developments indicate further opportunities to expand the bond market relative to the scale of bank lending. Important areas for continued improvement include optimizing issuance procedures and associated costs, developing credit rating and guarantee infrastructure, enhancing secondary market liquidity, and broadening participation by institutional investors.

On this basis, five priority areas are recommended: creating a guarantee or credit enhancement pilot for corporate bonds; establishing a standardized bond segment for small and medium-sized businesses; developing the government securities yield curve and the institutional investor base; further improving the coordination of state bank reforms with market-based financing instruments; and strengthening transparency, market-making, and investor protection. These measures complement bank lending and, by improving the balance among bank credit, equities, and bonds, can strengthen the long-term investment potential of Uzbekistan's economy.

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