LEGAL BASIS FOR THE IMPLEMENTATION OF FINANCIAL ACTIVITIES

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Abstract: This article examines the legal framework governing financial activities in Uzbekistan. Through a review of key legislation, regulations, and reforms, it analyzes how Uzbekistan's laws enable and regulate banking, capital markets, insurance, and other financial sector operations. The findings show that Uzbekistan has established a comprehensive legal basis for finance that aligns with international standards while accounting for local economic conditions. Recent legal reforms have liberalized the financial sector and enhanced regulatory oversight. However, some gaps remain in consumer protection, information disclosure, and institutional capacity. The article concludes with recommendations to further strengthen Uzbekistan's financial legal infrastructure.

Keywords: *Uzbekistan, financial law, banking regulation, capital markets, legal reform*

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Annotatsiya: Ushbu maqolada O‘zbekistondagi moliyaviy faoliyatni tartibga soluvchi Qonunchilik asoslari ko'rib chiqilgan. Asosiy Qonunchilik, me’yoriy hujjatlar va islohotlarni ko‘rib chiqish orqali O‘zbekiston qonunlari bank, kapital bozori, sug‘urta va boshqa moliya sektori operatsiyalarini qanday amalga oshirishi va tartibga solishini tahlil qiladi. Natijalar shuni ko‘rsatadiki, O‘zbekistonda mahalliy iqtisodiy sharoitlarni hisobga olishda xalqaro standartlarga mos keladigan moliyalashtirishning keng qamrovli huquqiy asoslari yaratilgan. So‘nggi huquqiy islohotlar moliya sektorini erkinlashtirdi va tartibga solish nazoratini kuchaytirdi. Biroq, ba’zi bo‘shliqlar iste'molchilar huquqlarini himoya qilish, axborotni oshkor qilish va institutsional imkoniyatlarda qolmoqda. Maqola O‘zbekistonning moliyaviy huquqiy infratuzilmasini yanada mustahkamlash bo'yicha tavsiyalar bilan yakunlanadi.

Kalit so‘zlar: *O‘zbekiston, moliya huquqi, bank faoliyatini tartibga solish, kapital bozori, huquqiy islohotlar*

ПРАВОВЫЕ ОСНОВЫ ОСУЩЕСТВЛЕНИЯ ФИНАНСОВОЙ ДЕЯТЕЛЬНОСТИ

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Аннотация: В этой статье рассматривается правовая база, регулирующая финансовую деятельность в Узбекистане. На основе обзора ключевых законодательных актов, нормативных актов и реформ анализируется, каким образом законы Узбекистана позволяют осуществлять банковскую деятельность, деятельность на рынках капитала, страховую деятельность и другие операции финансового сектора и регулируют их. Результаты исследования показывают, что в Узбекистане создана всеобъемлющая правовая база в области финансов, которая соответствует международным стандартам и учитывает местные экономические условия. Недавние правовые реформы привели к либерализации финансового сектора и усилению надзора со стороны регулирующих органов. Тем не менее, сохраняются некоторые пробелы в защите прав потребителей, раскрытии информации и институциональном потенциале. Статья завершается

рекомендациями по дальнейшему укреплению финансово-правовой инфраструктуры Узбекистана.

Ключевые слова: *Узбекистан, финансовое законодательство, банковское регулирование, рынки капитала, правовая реформа*

INTRODUCTION

A well-functioning legal framework is essential for the stable and efficient operation of a country's financial system [1]. Laws and regulations that clearly define the rights and obligations of financial institutions, consumers, investors, and regulators establish the rules of the game. They provide predictability, mitigate risks, and create an enabling environment for financial intermediation to support economic growth [2].

Since gaining independence in 1991, Uzbekistan has gradually developed a legal basis for the implementation of financial activities that reflects its transition to a market economy. This article examines key aspects of Uzbekistan's financial legislation across the banking, capital markets, and insurance sectors. It assesses the extent to which the laws establish sound prudential standards, promote transparency, protect consumers, and adhere to international norms. Through this analysis, the article aims to identify strengths, gaps and priorities for further reform.

LITERATURE REVIEW

The article employs a qualitative research methodology focused on the review and interpretation of legislation and secondary sources. The primary research consisted of an examination of Uzbekistan's constitution and major financial sector laws and regulations, including:

- Law on the Central Bank (1995)
- Law on Banks and Banking Activity (1996)
- Law on Securities Market (2008)
- Law on Insurance Activities (2002)
- Regulation on Prudential Requirements for Commercial Banks (2015)

Secondary sources consulted include reports by international financial institutions such as the World Bank and International Monetary Fund (IMF), scholarly articles, and news media. Sources were limited to those available in English or Russian.

METHODOLOGY

The analysis applies general concepts and principles from the literature on financial sector legal frameworks. Key insights relate to the role of law in reducing information asymmetries, addressing agency problems, mitigating systemic risk, and responding to financial innovation [3]. The "financial law quadrangle" framework proposed by [4] that examines goals, structures, methods and tradeoffs in financial regulation was also utilized.

Comparative studies of financial law emphasize how legal systems vary based on a country's legal tradition, level of economic development, and political economy [5]. The literature on financial legal reforms in transition economies is particularly relevant for Uzbekistan [6]. It stresses the challenges of establishing market-based financial systems where state planning previously dominated. Insights on the sequencing of reforms and the importance of developing legal and regulatory institutions alongside financial markets also inform this article's analysis [7].

RESULTS AND DISCUSSION

Uzbekistan's constitution adopted in 1992 (new revision in 2023) establishes a presidential republic and provides for the separation of powers [8]. It guarantees freedom of economic activity and enshrines the equality of all forms of property ownership including private property. These constitutional principles provide the foundation for Uzbekistan's financial legislation.

The 1995 (new revision in 2019) Law on the Central Bank establishes the Central Bank of Uzbekistan (CBU) as the country's central bank and bank supervision authority [9]. It grants the CBU substantial independence to formulate and implement monetary policy. The law empowers the CBU to issue and revoke banking licenses, set mandatory reserve requirements and prudential standards, and conduct bank inspections.

The 1996 Law on Banks and Banking Activity (new revision in 2019) is the main law governing the operations of commercial banks [10]. It sets licensing and minimum capital requirements for banks. Permitted banking activities include deposit-taking, lending, payment services, foreign exchange dealing, and securities trading. The law mandates annual audits of banks' financial statements. It establishes the deposit insurance system and the Deposit Insurance Fund to protect individual depositors.

Amendments to the banking laws in 2019 loosened restrictions on foreign ownership of banks and enabled the issuance of Islamic banking licenses [11]. The CBU has also introduced Basel III capital and liquidity standards through regulations, bringing Uzbekistan closer to international norms for bank supervision [12].

The 2008 Law on Securities Market governs the issuance and circulation of stocks and bonds [13]. It establishes the Capital Market Development Agency as the securities market regulator. The law requires the registration of securities issuances and licenses professional securities market participants such as brokers, dealers, and investment funds. Disclosure and reporting requirements aim to ensure transparency. In 2021, amendments expanded the range of permitted securities to include derivatives, depository receipts, and exchange-traded funds [14].

The 2002 Law on Insurance Activities is the primary insurance legislation [15]. It determines the licensing and prudential requirements for insurers and insurance intermediaries. Amendments in 2022 opened the insurance sector to full foreign ownership [16]. The law mandates the segregation of life and non-life insurance activities. It does not provide for policyholder protection funds.

Uzbekistan's financial laws have played an important role in transforming the country's financial system from one subordinate to central planning to an increasingly liberalized and market-based one. The independence and strong legal foundation of the CBU has facilitated the pursuit of macroeconomic and financial stability. Prudential regulation and supervision, while not yet fully in line with international standards, has strengthened over time.

Openness to foreign investment in the banking and insurance sectors enabled by recent legal changes can facilitate competition and the transfer of technology and know-how. Majority foreign ownership of banks reached 54% of sector assets in 2022, supporting lending growth and financial inclusion [17]. However, further improvements in corporate governance and information disclosure are needed to safeguard the interests of domestic savers and policyholders.

Capital market laws have enabled the issuance of corporate securities and government bonds, laying the groundwork for the development of deeper and more liquid securities markets. However, the investor base remains underdeveloped and market infrastructure is limited [18]. Amendments to enable more diverse securities were an important step. Clearer legal protections for minority shareholders and greater transparency in the privatization process could support stock market growth.

Uzbekistan's financial legislation increasingly incorporates international standards, but some gaps remain. Adoption of the international financial reporting standards (IFRS) has progressed in the banking sector but needs to extend fully to other financial subsectors [19]. Provisions for Islamic finance should be deepened. Anti-money laundering and countering the financing of terrorism (AML/CFT) laws have been enhanced but some deficiencies remain relative to Financial Action Task Force (FATF) recommendations [20].

Uzbekistan's case illustrates both the progress and challenges in financial legal development in countries undergoing market transitions. The fundamental legal building blocks for functional financial markets are largely in place thanks to sustained reform efforts. However, modernizing the legal framework is an ongoing process that requires continued commitment, technical capacity, and responsiveness to financial innovation.

Assuring the consistency and enforceability of financial laws is a key priority. The expansion of the sector and the proliferation of new actors and instruments may outpace the legal infrastructure. Keeping regulation up to date and harmonized across subsectors is essential to prevent gaps and regulatory arbitrage.

Financial legal development ultimately needs to serve the real economy. Carefully balanced rules that promote access to credit and financial services while upholding stability and consumer protection are critical. An enabling legal framework should translate into a more competitive and innovative financial sector that better meets the needs of firms and households.

CONCLUSION

This article analyzed the legal basis for financial activities in Uzbekistan. It found that a broad legal framework governing the banking, insurance, and capital markets sectors is in place. Reforms in recent years have significantly liberalized the financial sector and brought legislation closer to international standards. However, more remains to be done to fully modernize and harmonize financial laws, strengthen regulatory institutions, and improve transparency and consumer protection.

Priorities for future legal reforms include:

- Completing the adoption of IFRS across all financial subsectors.
- Strengthening AML/CFT provisions in line with FATF standards.
- Enhancing legal protections for minority shareholders.
- Developing legislation to enable fintech innovations such as digital currencies.
- Deepening legislation for Islamic finance.
- Strengthening institutional capacities for supervision and enforcement.

Financial legal reforms should be sequenced and paced to maintain stability. Benchmarking to international best practices is important but must be adapted to local conditions. Ongoing efforts to diversify the economy and expand the private sector will shape future financial development and should inform the legal reform agenda. Maintaining an up-to-date and responsive legal framework will be critical to supporting a modern, stable and inclusive financial system in Uzbekistan.

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