

# Digital Coins of Commercial Banks of the Republic of Uzbekistan

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## Abstract:

This article will explore all aspects of contemporary method of improving monetary policy in our country through a release of digital coins by commercial banks, and this project could result in counter the increase of inflation rate. What is more, there might be various benefits like enhancing credit ratings of commercial banks, making our economy more attractive for international investors, decreasing shadow economy and others.

**Keywords:** *Digital coins, total current assets, total current liabilities, inflation rate, B2B, B2C, corporate clients, individual clients, UZS, shadow economy, market price, central bank*

## Introduction

Before starting my article, I would like to walk readers through the crux of digital currencies (money) at all, then following stage is about digital coins of commercial banks and how they would operate within the economy. So, digital currency refers to any means of payment that exists in a purely electronic form. Digital currency is not physically tangible like a dollar bill or a coin. It is accounted for and transferred using online systems. Digital currency is money in purely digital form. It is not a physically tangible asset like cash or other commodities like gold or oil (Abbasovich and Elzara n.d.; KHUDAYAROVA 2014).

Digital currency can streamline the current financial infrastructure, making it cheaper and faster to conduct monetary transactions. It can also ease monetary policy implementation by central banks. Examples of types of digital currencies are cryptocurrencies, central bank digital currencies, and stablecoins<sup>1</sup>. Digital currency is susceptible to hacks and can compromise user privacy.

A variant of digital money is already present in society today in the form of cash held in online bank accounts. This cash can be sent to others or received from them. It can also be used for

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<sup>1</sup> A **stablecoin** is a digital currency that is pegged to a "stable" reserve asset like the U.S. dollar or gold. Stablecoins are designed to reduce volatility relative to unpegged cryptocurrencies like Bitcoin.

online transactions. Digital money is similar in concept and use to its cash counterpart in that it can be a unit of account and a medium for daily transactions. But it is not cash. For example, the dollars in your online bank account are not digital money because they take on a physical form when you withdraw them from an ATM (Anon n.d.; Gulyamov, Rustambekov, and Khujayev n.d.; Narmamatov 2022).

Digital money is different from cash because it improves upon the process for monetary transactions. For example, the technological rails of digital money can make currency transfers across borders easier and faster as compared to standard money. This form of money also streamlines the process for [monetary policy](#) implementation for [central banks](#). The use of cryptography in some forms of digital money makes transactions involving them tamper-proof and censorship-resistant, meaning they cannot be controlled by governments or private agencies.

In this part of the article digital coins are disclosed. Digital Coins or DCs would be released by commercial banks of the Republic of Uzbekistan as a second digital payment system within the economy of our country in order to attract extra funds to finance new projects of banks, this could improve credit ratings of our banks by global rating agencies like Moody's, Fitch and others. Since no other banks have issued yet.

**Structure of Digital Coins.** All digital coins would trade at UZS and of course all transactions would be done in UZS as usual. Regarding the assessment process, so in this case, each commercial bank's DC would be assessed based on its total current assets. Of course, all issue processes of digital coins would be under control of Central Bank of the Republic of Uzbekistan, in other words, Central Bank would analyze total current assets and total current liabilities, thus based on the outcome of difference between them Central Bank would give permission to issue digital coins by a certain commercial bank. Below is the formula of assessment and valuation of digital coins.

It would be calculated according to this formula:

$$\text{Market price} = \text{Total current assets} / \text{Total current liabilities}$$

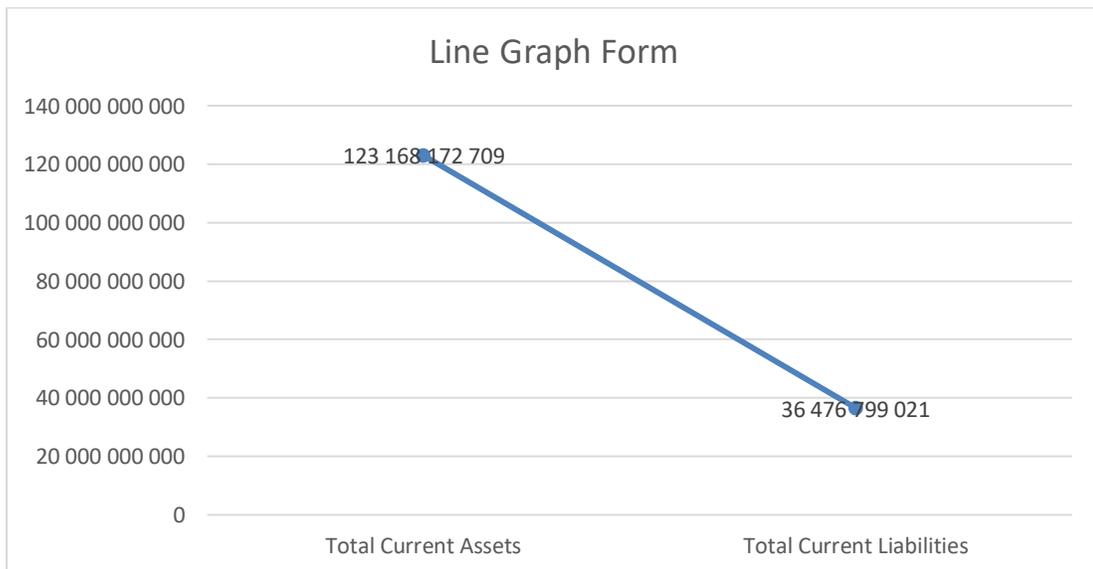
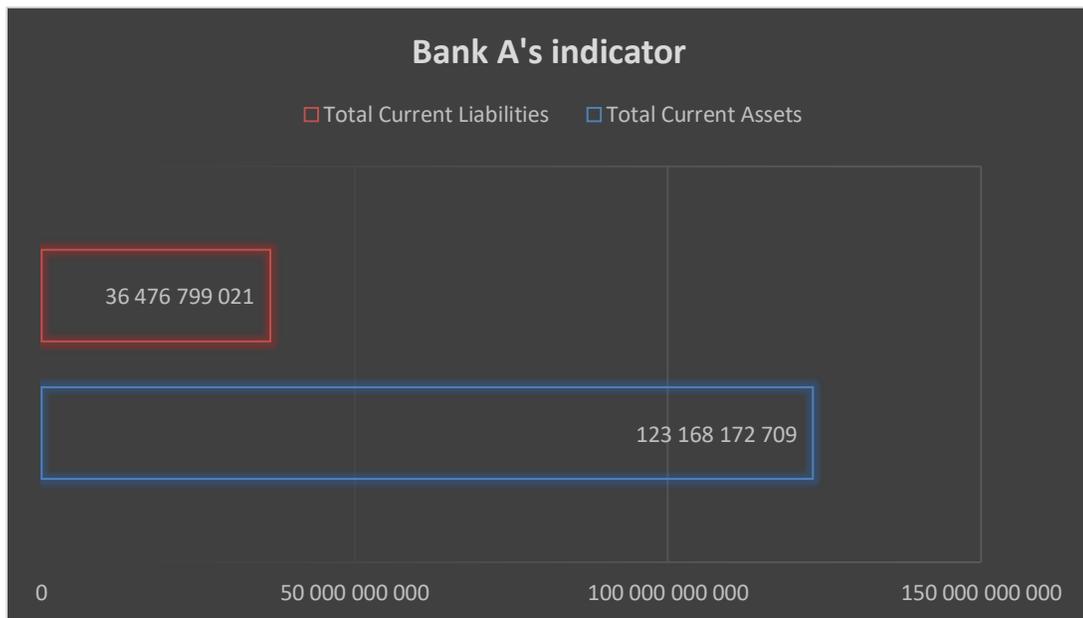
Where based on my analysis Total current assets **should exceed** Total current liabilities **at least 1.5 times** which would mean starting point. To be more precise, if a certain commercial bank would be willing to issue its digital coins so in this case total current assets should exceed total current liabilities at least 1.5 times that would minimum difference for issue. After issuing, at the end of every fiscal year<sup>2</sup> a commercial bank would be obliged to provide annual financial report of the difference of total current assets and total current liabilities for last 12 months, and if result would exceed than the previous one in this case the value of digital coins of that bank would trade higher than last year. There are some samples in illustrated forms as line graph as well as bar graphs of difference between total current assets and total current liabilities of Bank A as an example (in thousand UZS)

Bank A's indicator

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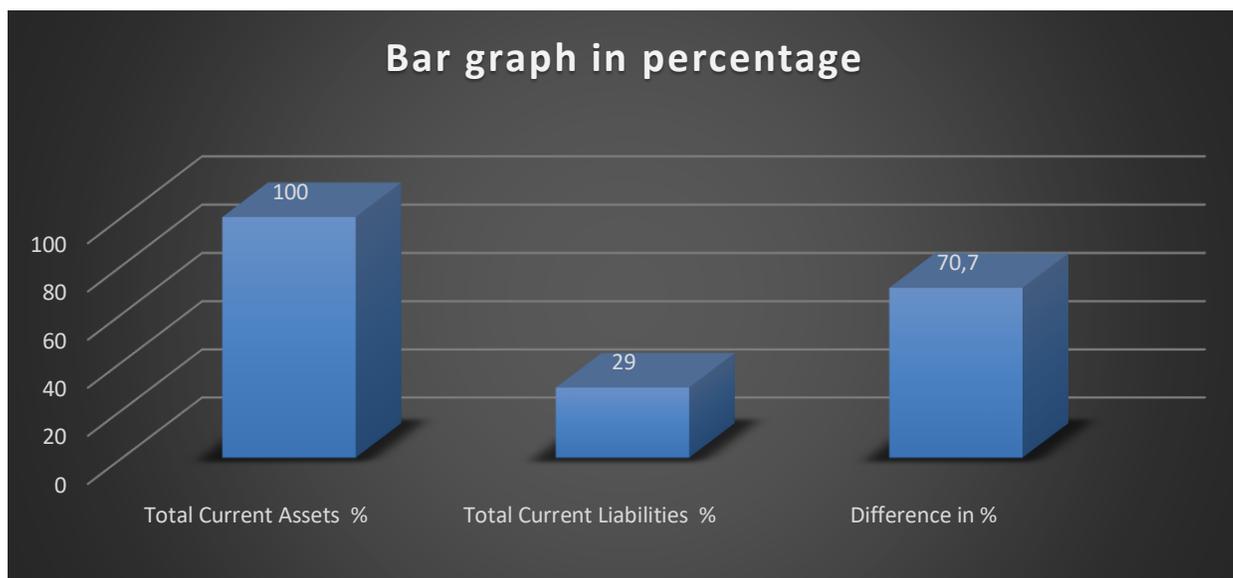
<sup>2</sup> A **fiscal year** is a 12-month accounting period that a business uses for financial and tax reporting purposes. A fiscal year is also known as a financial year.

Total Current Assets	Total Current Liabilities	Difference
123 168 172 709	36 476 799 021	86 691 373 688



Total Current Assets	Total Current Liabilities	Difference
123	36	3,4 times

Total Current Assets %	Total Current Liabilities %	Difference in %
100	29	70,7



**Launching process.** In the first stage, digital coins would be offered to corporate clients of banks in transaction processes. For instance, Bank A serves Company B's accounts (which is a chain of retail stores), then Bank A would offer its DCs to Company B as a second way of payment, what is more, as mentioned above, as long as a difference between Total Current Assets and Total Current Liabilities exceeds more than 1.5 times then DC of Bank A would trade higher than par value. After first phase, Bank A would offer its DCs to its individual client C via own banking app. Next, when Individual client C would purchase food from retail store (Company B). Client C could make a payment through Bank A's DCs, finally at the end of each financial quarter, Bank A would take back its DCs from both clients certainly clients would receive UZS + cashback.

Launching in this way as emphasized above, it is highly probable to stimulate entrepreneurs and people to use digital coins as a second payment tool. What is more, by issuing DCs it is probable to prevent the increase of inflation rate since based on my analysis many people in our country save their UZS at homes, and of course money base in shadow economy can also be diminished since people would be attracted to purchase digital coins due to a value change based on the difference of total current assets and total current liabilities. Perhaps, some might consider them as speculative assets, which would lead to rise digital coins' capitalization.

**Benefit for commercial banks.** Funds from selling Digital Coins could be directed to finance micro-loans and other funded profitable banking projects like a digitalization of banking system, free-economic zones, textile clusters even a large-scale project as a state-of-the-art core banking

system<sup>3</sup>. That would mean the diminishing of external debts of commercial banks, in simple terms the advantages of digital coins do outweigh the disadvantages (Narmamatov 2022; Sharipova 2022).

For instance, pros are followings: first and foremost is innovative approach to improve banking system (fintech in banking sector); 2) it is probable to counter the rise of inflation rate as stated above; 3) money base in shadow economy would be declined and directed to purchase digital coins because of trading in UZS that would result in high liquidity in the future; 4) another important upside is that no other banks have issued own digital coins yet; 5) last but not least, credit ratings of our banks might be improved by international credit organizations. The disadvantages are only three: 1) unknown result in reality (but it does not mean that it would adversely affect money base in country); 2) there might be some difficulties in the beginning phase (but after releasing it can be regulated); 3) people's attitudes toward digital coins in the initial phase.

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<sup>3</sup> A core banking system as a back-end system that processes daily banking transactions and posts updates to accounts and other financial records. Core banking systems typically include deposit, loan and credit processing capabilities, with interfaces to general ledger systems and reporting tools.