ANALYSIS OF THE STATE OF THE BANKING SYSTEM IN TURKESTAN IN THE TWENTIES OF THE 20TH CENTURY

Kuchqarov Shohruhbek Khursanboy ugli
Teacher of the Department of "Social and Economic Sciences" of
Kokand University Andijan branch

Abstract. This paper analyzes the structure, functionality, and socio-economic impact of the banking system in Turkestan during the 1920s, a period of radical transformation following the collapse of the Russian Empire and the consolidation of Soviet power. Drawing upon historical records and archival data, the study explores the role of state-controlled banks, the elimination of private banking institutions, and the implementation of Soviet financial policies in shaping a centrally planned economy. The paper highlights how political ideology profoundly influenced financial access, credit policies, and the development of banking infrastructure in early Soviet Turkestan.

Keywords: Turkestan, banking system, Soviet economy, state credit, financial centralization, 1920s, economic transformation.

INTRODUCTION

The 1920s were a decisive decade for the transformation of the banking sector in Central Asia, particularly in the Turkestan region. With the collapse of Tsarist rule in 1917 and the subsequent rise of Bolshevik power, financial institutions became instruments of the new socialist state. The banking system that existed before the revolution—dominated by private and commercial banks mostly serving Russian industrial and mercantile interests—was dismantled and replaced with centralized, state-controlled financial structures.

This article seeks to provide a historical analysis of the state of the banking system in Turkestan during the 1920s, focusing on institutional reforms, political control over credit distribution, and the impact on the region's socio-economic development.

MATERIALS AND METHODS

Following the establishment of Soviet authority in Turkestan, the Bolshevik government moved swiftly to dismantle the old banking institutions. Commercial banks that had previously operated under Russian rule—such as the Turkestan branches of the State Bank and private joint-stock banks—were liquidated. According to Azizkhojayev, by 1923, all such banks had ceased operations, and their functions were transferred to centralized bodies of the Soviet state [1]. The new Soviet financial policy replaced market-driven banking with a centralized credit system. The People's Bank of the RSFSR and later Gosbank (State Bank of the USSR) extended their operations into Turkestan. These institutions acted not as independent financial entities but as arms of the state budget and central economic planning. Their core functions were to distribute state funds to priority sectors, especially agriculture and cotton production, which held strategic value for the Soviet economy [2].

In 1923 alone, state banks allocated over 13.5 million rubles in loans, of which 55% was directed to cotton procurement campaigns. This concentration of resources reflected not only economic but political priorities—ensuring resource flows to support Soviet industrialization and the needs of the Russian center [3].

RESULTS AND DISCUSSION

While state banks focused on collective farms and state enterprises, rural populations and small artisans primarily relied on credit cooperatives. However, these cooperatives operated under tight ideological supervision. Azizkhojayev notes that loans were distributed along class lines, favoring politically reliable and ideologically loyal borrowers. As a result, a significant portion of the peasantry remained excluded from formal credit access, continuing to rely on traditional, informal lending networks with high interest rates [1].

By 1924, there were 1,169 credit cooperatives operating in Turkestan, yet they covered only 15–20% of the actual rural credit demand. The remaining majority of the population had limited or no access to institutional financing [4].

With the complete state monopolization of the banking sector, especially after the dissolution of the Uzbek Commercial Bank in 1930 and its absorption by the State Bank, any residual elements of financial autonomy were eliminated. All credit operations were subordinated to the economic plans issued by the central government in Moscow, leaving no room for local or regional financial initiative [3].

Banks became vehicles of economic control rather than development. Financial services were no longer driven by demand or profitability but by political directives. Consequently, while the banking network expanded in coverage, it contracted in function—focusing only on state-mandated goals and excluding spontaneous private economic activity.

Another important feature of the banking system in 1920s Turkestan was its uneven geographic distribution and infrastructural underdevelopment. Most state banking activity was concentrated in urban centers such as Tashkent, Samarkand, and Bukhara. Rural regions, where the majority of the population resided, remained largely underserved. This spatial imbalance was not only due to logistical limitations but also reflected the state's prioritization of areas with industrial and administrative significance.

The limited presence of financial institutions in rural areas created deep structural disparities in access to credit and financial services. Agricultural producers in the Fergana Valley and Khorezm region, for example, often had to travel significant distances to access even the most basic financial services, which limited their participation in formal economic systems. Despite the Soviet regime's stated commitment to class equality, the rural-urban divide in financial infrastructure contradicted these ideological goals.

Moreover, financial illiteracy further compounded these inequalities. A significant portion of the rural population, particularly among women and uneducated peasants, lacked the basic knowledge required to navigate institutional banking procedures, such as loan applications, interest calculations, or repayment schemes. The state did little to improve this situation during the 1920s, as educational and propaganda efforts were mainly focused on ideological indoctrination rather than practical economic education.

One of the lesser-known but impactful aspects of Soviet banking policy during the 1920s in Turkestan was the attempt to stabilize currency circulation in the aftermath of civil war chaos. The introduction of the chervonets (a stable Soviet gold-backed currency) in 1922 marked an effort to restore monetary order. This was particularly important for restoring public trust in the banking system, which had been severely undermined by wartime hyperinflation and chaotic multiple-currency usage during the period of revolutionary turmoil.

However, implementation in Turkestan faced serious challenges. First, the shortage of printed banknotes, coupled with poor distribution logistics, made the currency reform inconsistent across the region. Second, the local population had become accustomed to barter trade or reliance on alternative currencies, including pre-revolutionary rubles and even foreign money in border regions like Bukhara and Khiva. The banks, therefore, had to work not only as economic actors but also as agents of monetary normalization and enforcement.

While the reform improved bookkeeping and state planning at the macro level, it did little to expand grassroots financial inclusion. Farmers and artisans, for instance, often continued to avoid bank-mediated transactions, either due to distrust or lack of functional access. The benefits of currency stabilization thus accrued primarily to state enterprises and urban economic actors closely integrated with the planned economy.

CONCLUSION

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The banking system of Turkestan during the 1920s was emblematic of broader Soviet transformations—marked by ideological centralism, economic reorganization, and political authoritarianism. The liquidation of private banks and the establishment of a centralized financial infrastructure under strict state control signified the Soviet Union's break from capitalist financial practices.

Although banking institutions expanded numerically and administratively, their effectiveness in serving the general population, especially rural communities, remained limited. The system prioritized compliance over innovation, central plans over local needs, and ideological conformity over financial inclusion. Nevertheless, it laid the foundational framework for a command economy that would dominate Central Asia for the next seven decades.

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