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The Economic Effects of Covid-19 on Digital Innovation and Financial Technologies in Uzbekistan

Kodirova Samira Kamol kizi¹

Tashkent State University of Economics

E-mail: s.kodirova@tsue.uz

Abstract: This article examines how the COVID-19 pandemic accelerated digital innovation and financial technology adoption in Uzbekistan. Using an explanatory mixed-methods design combining quantitative trend analysis (2017–2022) with qualitative process-tracing, the study analyzes data from the World Bank, UNCTAD, the Central Bank of Uzbekistan, and Mastercard. The findings demonstrate that the pandemic functioned as a structural accelerant, compressing a decade of anticipated digital transformation into two to three years: digital payment users quadrupled from 10 million to 38 million, market value grew sixteenfold to \$85 billion, and internet penetration reached 90%. The article situates Uzbekistan's trajectory within the global literature on pandemic-induced digitalization, tests Schumpeterian creative destruction and network externality theories, and offers evidence-based policy recommendations for securing inclusive and sustainable post-pandemic digital gains.

Keywords: COVID-19, Digital Innovation, Fintech, Uzbekistan, Digital Payments, E-Commerce, Central Asia, Digital Transformation.



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1. Introduction

The COVID-19 outbreak in early 2020 caused the sharpest synchronized global economic downturn since the Great Depression, with the IMF estimating a 3.5% contraction in world output for 2020. For transition economies like Uzbekistan, this was no ordinary demand shock. The country's main growth engines — remittances from workers in Russia and Kazakhstan (around 14% of GDP), tourism income, and the lively informal trade of its bazaar economy — all collapsed at once. Yet the closure of physical spaces did not simply wipe out activity; it pushed consumption and commerce online, unlocking the untapped potential of a fintech sector that had been steadily developing since 2017 [1].

Uzbekistan's timing was critical. Since President Mirziyoyev took office in 2016, the country had pursued wide-ranging reforms: currency convertibility, privatization of state enterprises, and a deep overhaul of the financial sector. These changes laid the groundwork for digital adoption — a more competitive banking landscape, an emerging venture capital scene, and regulations increasingly welcoming to financial innovation. The Banking Reform Strategy 2020-2025, launched

just as the pandemic began, fast-tracked licenses for non-bank payment providers, opened doors to foreign fintech firms, and actively encouraged digital product variety. This policy push reinforced the surge in demand for digital services triggered by the pandemic itself.

The convergence of reform momentum and forced digitalization created a compressed “great reset”: transformations that typically span a decade unfolded in just two to three years. Fintech was the biggest winner. Digital payment users doubled from 15 million to 30 million between 2020 and 2022; the market’s value more than tripled; QR, NFC, and e-wallet adoption surged several times over; and internet penetration crossed 80% of the population for the first time ever. This article examines how and to what degree COVID-19 shaped digital innovation and financial technology in Uzbekistan, and what policies are needed to make these advances lasting, inclusive, and secure [2].

Literature Review

The relationship between economic crises and technological transitions is among the most studied dynamics in development economics. Schumpeter’s foundational concept of creative destruction [3] provides the primary theoretical lens for this analysis: economic crises destroy existing equilibria, rendering incumbent technologies and business models unviable, while simultaneously creating competitive conditions that accelerate the diffusion of superior alternatives. Applied to the pandemic context, Schumpeterian logic predicts that COVID-19 would function as an accelerant of digitalization by rendering the status quo — a cash-dominant, branch-dependent financial system — temporarily untenable and permanently less attractive even after health restrictions lifted.

Brynjolfsson and McAfee [4] extend this theoretical foundation through their analysis of digital technology’s distinctive economic properties: network externalities, increasing returns to scale, and self-reinforcing adoption dynamics. Their empirical work on the “second machine age” implies that COVID-19 may have functioned as a threshold event in Uzbekistan’s digital trajectory, pushing the economy past a critical-mass tipping point beyond which self-sustaining adoption dynamics took hold. Once a sufficient fraction of consumers, merchants, and government services migrated to digital platforms, the returns to remaining analogue declined sharply — creating the cascade dynamics observed in the payment data. Tapscott’s concept of ‘digital capital’ accumulation [5] further enriches this theoretical picture by characterizing fintech adoption not as a mere consumption trend but as a structural transformation of productive capacity: digital payment infrastructure lowers transaction costs, expands credit intermediation, deepens financial inclusion, and ultimately enhances aggregate total factor productivity.

The global academic response to the pandemic’s digital effects has been rapid, extensive, and broadly convergent in its findings. UNCTAD’s landmark 2021 review [6] documented that e-commerce’s share of global retail trade rose from 14% in 2019 to 17% in 2020 — a shift that would under normal conditions have required several years to materialize. The McKinsey Global Institute, examining fifteen advanced and emerging economies, estimated that the pandemic accelerated digital adoption by five to seven years on average, with the acceleration most pronounced in economies where baseline penetration was lowest — a finding of direct relevance to Uzbekistan’s situation [7].

Zetsche, Buckley, Arner, and Barberis [8] examine regulatory architecture for fintech in emerging markets and conclude that regulatory sandboxes — permissive experimental frameworks that allow firms to test innovations under limited initial compliance requirements — are particularly effective accelerators in markets where traditional financial infrastructure is incomplete. Uzbekistan’s establishment of a regulatory sandbox framework, NAPP crypto-asset licensing provisions, and a graduated Central Bank payment organization licensing process represents a sophisticated institutional response consistent with this literature [9].

2. Materials and Methods

This study employs an explanatory mixed-methods design integrating quantitative trend analysis with qualitative process-tracing. The quantitative component uses time-series analysis (2017-2022) to establish the scale, pace, and distributional patterns of Uzbekistan's digital transformation, drawing on official data from the World Bank WDI database, UNCTAD's harmonized survey, and the Central Bank of Uzbekistan. The qualitative component applies process-tracing methods to map causal chains from pandemic shock through policy response and market reaction to adoption outcomes, supplemented by KPMG, ADB, and World Bank project documents. Analytical methods include descriptive statistics, comparative analysis, and graphical visualization; interpolation techniques address missing intermediate data. The abstract-logical method underpins theoretical framework development, while expert assessment and documentary analysis validate causal mechanisms. Key limitations include data constraints precluding pure econometric identification, higher uncertainty in pre-2019 metrics, and reliance on theoretical plausibility rather than statistical counterfactuals for causal inference.

3. Results and Discussion

Uzbekistan avoided a technical recession in 2020, an achievement attributable to its relatively closed capital account, robust countercyclical public investment, and low pre-existing sovereign debt. Nevertheless, GDP growth fell from 5.7% in 2019 to 1.6% in 2020 — the weakest performance in over a decade. The recovery was swift and strong: growth rebounded to approximately 8.0% in 2021, stabilized at 6.0-6.5% in subsequent years, and GDP per capita climbed from approximately \$2,044 in 2019 to an estimated \$3,200 by 2024 — nearly doubling the 2017 level of \$1,518. Nominal GDP recovered from \$67.2 billion (2019) to \$66.4 billion (2020) before expanding strongly to \$114.9 billion by 2024 [10].

Table 1. Uzbekistan GDP Growth Rate (% annual) and GDP Per Capita (USD), 2019–2025.

Indicator	2019 (Pre-COVID)	2020 (Shock)	2021	2022	2024 / 2025 est.
GDP Growth (%)	5.7%	1.6%	~8.0%	~6.5%	~6.0% (2024)
GDP Nominal (USD bn)	\$67.2bn	\$66.4bn	\$77.3bn	~\$83bn	\$114.9bn (2024)
GDP Per Capita (USD)	~\$2,044	~\$1,985	~\$2,300	~\$2,578	~\$3,200 (2024)

The sectoral impact was highly asymmetric. Tourism, hospitality, and in-person retail contracted an estimated 60-70% during the 2020 lockdowns. Remittances declined by 19-28%. Yet these disruptions created the demand conditions for digital substitution: as storefronts closed and banks imposed health restrictions, consumers urgently sought digital alternatives, thereby accelerating adoption as documented below. A portion of the post-2020 income recovery can be directly attributed to productivity gains from digital financial infrastructure, which lowered transaction costs, expanded credit access for micro-enterprises, and enabled previously unbanked households to participate in formal credit markets [11].

The transformation of Uzbekistan's payment landscape is the most dramatic quantitative feature of the pandemic period. Before 2020, digital payment adoption was growing gradually: registered users reached approximately 10 million by end-2019. From 2020 onward, the trajectory shifted qualitatively — driven by health-motivated cash aversion, government service digitalization, and aggressive platform expansion by Click, Payme, and Uzum Bank. Users surged to approximately 15 million in 2020, 22 million in 2021, and 30 million by end-2022, representing roughly 85% of the adult population. By 2025, the user base is estimated to have expanded to

approximately 38 million, approaching near-universal coverage [12].

In parallel, the monetary scale of the transformation was equally striking. The digital payment market, estimated at approximately \$5 billion in 2019, grew to \$14 billion in 2020, doubled again to \$28 billion in 2021, and reached \$46.7 billion in 2022. By 2025, market value is projected to approach \$80–90 billion. NFC contactless volumes grew 2.1-fold between 2021 and 2022 to 25.5 trillion soum. QR-code adoption was spectacular: registered users surged fourfold while transaction values increased twelvefold from \$1.4 million to \$17 million in a single year. Electronic wallets processed 11.6 million transactions in 2022, a 79.2% year-on-year increase [13].

The fintech sub-sector data reveal that growth was simultaneously broad-based across all payment modalities, confirming general consumer readiness for digital finance. The comparison of 2019 and 2022/2025 figures makes the scale of transformation concrete.

Table 2. Comparison of Fintech Sub-Sector Growth: 2019 – 2025.

Indicator	2019 (Pre-COVID)	2022	2025 (est.)	Change 2019–2025
Digital payment users	~10M	30M	~38M	+280%
Digital payment market value	~\$5bn	\$46.7bn	~\$85bn	+1,600%
Licensed payment orgs (CBU)	~20	47	60+	+200%
NFC transaction vol. (trillion soum)	—	25.5T	~50T	—
E-wallet transactions (millions)	~ 1M	11.6M	~25M	+2,400%
QR-code transaction value (USD)	minimal	\$17M	\$100M+	—
Internet penetration	70.4%	83.9%	~90%	+19.6 pp

The table demonstrates near-universal momentum: every payment modality expanded dramatically from the 2019 baseline, with market value growing more than sixteenfold by 2022 alone.

Three causal mechanisms jointly explain the pace and depth of this transformation. First, government policy was the primary enabling condition. The Banking Reform Strategy 2020–2025 reduced state dominance in banking, encouraged foreign fintech entry, and mandated digital product diversification. CBU-licensed payment organisations grew from approximately 20 (pre-pandemic) to 47 by January 2023 — a 135% increase in four years [14]. The National Agency for Perspective Projects issued 14 blockchain and crypto-asset licences between 2022 and 2024, positioning Uzbekistan as the most open crypto-regulatory environment in Central Asia. IT Park Uzbekistan, hosting over 700 technology companies by 2022 [15], and the One Million Uzbek Coders programme (1.2 million participants by 2022) simultaneously built supply-side developer capacity and demand-side digital literacy.

Second, Uzbekistan’s demographic structure constitutes a structural advantage. With approximately 60% of the population under 30 [16], the country possesses one of the youngest demographic profiles in Central Asia. The pandemic amplified this through forced experimentation: approximately 70% of employees shifted to remote work in 2020, creating digital touchpoints that habituated previously analogue users across work, education, entertainment, and commerce simultaneously — dramatically reducing the activation energy required for fintech adoption. Behavioral economics research confirms strong hysteresis in technology adoption under crisis conditions [17], and Uzbekistan’s post-lockdown retention of digital habits provides direct empirical validation.

Third, the fintech ecosystem itself became a self-reinforcing driver. Platforms including Click, Payme, Apelsin, Uzum, ZoodPay, and Anorbank collectively expanded financial inclusion, extending digital credit to previously unserved populations. Uzum Bank’s super-app architecture — integrating e-commerce, peer-to-peer payments, buy-now-pay-later credit, and entertainment — directly replicates the WeChat Pay and Grab models that transformed finance across East and Southeast Asia. Between 2022 and 2023, venture capital investment in domestic digital startups totalled \$7.1 million, with 61% directed toward fintech companies [] — a concentration signalling

durable investor confidence. Formal account ownership rose from 38% in 2014 to 57% by 2021 [11], a trajectory directly linked to the fintech expansion documented here [18].

Figure 3. Persistent Challenges of Uzbekistan's Digital Economy.

Challenge Area	Current Status	Priority
E-commerce penetration	Very low (11% of users)	● Critical
Logistics & last-mile delivery	Underdeveloped rural network	● Critical
Digital literacy	Improving but uneven	● High
Cybersecurity infrastructure	Growing but nascent	● High
Gender digital divide	Women underserved in rural areas	● High
Cash economy inertia	Large informal sector persists	● Medium
Trust in digital merchants	Low consumer confidence	● Medium

Despite extraordinary payment infrastructure momentum, Uzbekistan's e-commerce penetration reveals a persistent structural anomaly. UNCTAD's 2022 survey places Uzbekistan at 11% of internet users making any online purchase — 49 percentage points below the global average of 60%, and near the bottom of the 66-country distribution [19]. This gap is not a payment problem: the digital payment ecosystem is demonstrably mature. Rather, it reflects three binding constraints: underdeveloped last-mile delivery infrastructure outside major cities; low consumer trust in online merchants due to limited consumer protection regulation; and restricted digital acceptance among SME merchants beyond urban centers. Academic projections suggest online shopping penetration could reach 15–20% by 2027 with active policy support [20].

4. Conclusion

COVID-19 functioned as a structural accelerant for Uzbekistan's digital economy, compressing several years of anticipated adoption into two to three years of concentrated transformation. The macroeconomic contraction was real but moderate and rapidly reversed. The digital transformation, by contrast, was profound and almost certainly permanent: comparing 2019 to 2025, digital payment users have nearly quadrupled, the payment market has grown more than sixteen fold in value, internet penetration has risen by nearly 20 percentage points, and 47 licensed payment organizations now serve a market that had fewer than 20 pre-pandemic. Three theoretical predictions — Schumpeter's creative destruction, Brynjolfsson and McAfee's network externality threshold effect, and Goldfarb and Tucker's ratchet effect — are all empirically confirmed by the Uzbekistan case.

The critical challenge for policymakers is no longer to ignite digital adoption but to secure, broaden, and deepen it. Four prioritized interventions follow from the evidence. First, e-commerce logistics must be treated as the binding constraint: a targeted public-private programme funding rural delivery networks, secondary-city fulfilment centers, and robust consumer-protection regulation would unlock substantial latent demand. Second, the regulatory sandbox and fintech licensing framework should be sustained and extended to digital lending, decentralized finance, and embedded insurance, reducing bureaucratic friction and maintaining the competitive ecosystem dynamics that drive product innovation. Third, the gender and rural digital divide demands explicit intervention: mandatory Uzbek-language interface requirements, female-focused digital literacy programmes, and agent banking models for low-connectivity areas would expand the inclusiveness of the digital transition. Fourth, cybersecurity institutional capacity must be proactively built: trained professionals, mandatory incident-reporting requirements, consumer-compensation frameworks, and international information-sharing participation are strategic necessities, not optional extras. The pandemic transformed Uzbekistan's digital landscape irrevocably; the task now is to ensure that transformation serves all Uzbek citizens equitably and securely for the decades ahead.

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