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## **ISSUES OF IMPROVING THE ACTIVITIES OF THE PROSECUTOR'S OFFICE TO ENSURE THE RULE OF LAW IN THE CREDIT SECTOR**

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### **Abstract**

The article examines the legal, institutional and technological issues of improving the activities of the Prosecutor's Office in ensuring the rule of law in the credit sector of Uzbekistan. The credit sector is treated as a strategic component of financial stability, public confidence in banking institutions, entrepreneurship financing and protection of citizens' property interests. The article argues that violations in credit relations should not be reduced to private contractual disputes between banks and borrowers, since unlawful lending practices, non-performing loans, misuse of credit funds, hidden contractual charges, corruption risks and money-laundering schemes may affect the economic security of the state. Particular attention is paid to the need to transform prosecutorial activity from a predominantly reactive model into a preventive, analytical, digital and risk-based system. The article analyses comparative foreign experience, including Germany, the United States, South Korea, Russia and FATF standards, and evaluates their adaptability to the Uzbek legal and institutional context. The study substantiates the need to introduce a Prosecutor's Digital Monitoring Platform, AI-based risk indicators, blockchain-based audit trails for high-risk credit operations, RegTech and SupTech tools, specialised prosecutors for financial and banking offences, and stronger legal safeguards for banking secrecy, personal data and cybersecurity.

**Keywords:** Credit sector, Prosecutor's Office, rule of law, prosecutorial supervision, digital monitoring, artificial intelligence, RegTech, SupTech,



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blockchain, banking secrecy, non-performing loans, financial crimes, interagency cooperation, risk-based supervision, Uzbekistan.

### **Introduction**

The credit sector occupies a strategic position in the modern economy of Uzbekistan. It channels financial resources to business entities, supports household consumption, facilitates investment activity and contributes to public confidence in banking institutions. In economic theory, credit is traditionally understood as a form of movement of loan capital, while the credit system is viewed as an institutional mechanism for accumulating and allocating financial assets [18], [19]. In legal terms, however, credit relations are not merely economic transactions; they are also governed by contractual obligations, banking regulation, consumer protection, rules on banking secrecy and public-law guarantees of legality.

At the same time, the legal quality of credit relations has a direct impact on financial stability, protection of citizens' rights, anti-corruption policy, the integrity of public resources and the prevention of financial crime. Credit-sector violations cannot be assessed merely as private contractual disputes between banks and borrowers. Unlawful lending practices may involve hidden commissions, unfair consumer credit terms, artificial inflation of collateral value, misuse of credit funds, unlawful restructuring, concealment of non-performing loans, conflicts of interest in credit committees, fraudulent documentation and money-laundering risks [1], [10], [12], [13].

According to official prosecutorial and banking analytical data, as of 1 January 2025, non-performing loans accounted for 4.7 per cent of the total credit portfolio. In 2019–2024, the credit portfolio increased by 120 per cent, whereas non-performing loans increased by 210 per cent. In 2023–2024, inspections revealed the misappropriation of credit funds amounting to UZS 3.3 trillion; 1,006 criminal cases were initiated and 822 bank officials were held liable. In 2024, problem loans amounting to UZS 19.9 trillion were reduced, while complaints concerning violations of citizens' rights in consumer credit increased significantly [1].



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These indicators demonstrate that the existing model of prosecutorial activity in the credit sector remains insufficiently preventive, insufficiently digitalised and not fully adapted to complex financial risks. The purpose of this article is to develop scientifically grounded proposals for improving the activities of the Prosecutor's Office in ensuring the rule of law in the credit sector of Uzbekistan by analysing comparative foreign experience, digital transformation mechanisms, artificial intelligence-based monitoring, interagency cooperation and legal safeguards for banking secrecy and personal data protection.

### **Methodology**

The article applies a combination of comparative legal analysis, systemic analysis, institutional analysis, legal modelling, risk-based assessment, analysis of law enforcement practice, functional analysis of prosecutorial powers and a digital governance approach. Comparative legal analysis is used to evaluate the experience of Germany, the United States, South Korea, Russia and FATF standards [4], [5], [7], [15], [17]. Systemic analysis makes it possible to examine credit-sector legality as an interaction between banking regulation, prosecutorial supervision, financial monitoring, anti-corruption mechanisms and digital governance.

Institutional analysis is applied to assess the relationship between the Prosecutor's Office, the Central Bank, financial intelligence structures, tax authorities and law enforcement bodies. In national legal doctrine, prosecutorial supervision and coordination are traditionally considered important institutional instruments for ensuring legality, preventing offences and aligning the actions of competent bodies [20], [21]. The risk-based approach is particularly important because credit-sector violations are often hidden behind formally lawful transactions. Legal modelling is used to propose a gradual reform roadmap for Uzbekistan, including digital monitoring, AI-based risk indicators, blockchain audit trails, specialised prosecutors and legal safeguards for banking secrecy and personal data.



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## **The Legal and Institutional Need to Improve Prosecutorial Activity in the Credit Sector**

The improvement of prosecutorial activity in the credit sector should begin with a clear distinction between banking supervision and prosecutorial supervision. The Central Bank is responsible for prudential regulation, licensing, supervision of banking stability, classification of assets and the establishment of regulatory requirements. The Prosecutor's Office, by contrast, should not replace the commercial decision-making of banks or the supervisory competence of the Central Bank. Its task is to ensure that credit relations remain within the boundaries of legality, transparency, accountability and public interest [2], [3].

The constitutional foundation of prosecutorial activity derives from the rule-of-law principle, the protection of human rights, the protection of property and the legality of public authority. The new edition of the Constitution of Uzbekistan, adopted in 2023, strengthens the legal basis for state bodies to act within the framework of law and for individual rights to be effectively protected [2]. The Law "On the Prosecutor's Office" defines the organisation, powers and main directions of prosecutorial activity, including supervision over the execution of laws by state bodies, enterprises, institutions, organisations and officials [3].

In the credit sector, prosecutorial activity is necessary because financial violations often have a mixed legal nature. A single credit transaction may simultaneously involve civil-law obligations, banking regulation, anti-corruption rules, criminal-law elements, tax consequences, personal data protection and AML/CFT obligations. For example, a loan granted on the basis of false documents may initially appear to be a contractual default; however, if the borrower, bank employee and appraiser acted in collusion, the case may involve fraud, abuse of authority, misappropriation of funds and legalisation of criminal proceeds [12], [13].

The Prosecutor's Office should therefore perform three interrelated functions in the credit sector. First, it should protect the rights of citizens and business entities against unlawful lending practices. Secondly, it should protect public interests when credit resources are connected with state programmes, public funds or systemic banking risks. Thirdly, it should coordinate the activities of competent bodies where credit-sector violations exceed the capacity of a single regulatory



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institution. This approach is consistent with the national scholarly understanding of prosecutorial supervision as a legal mechanism aimed not only at detecting violations, but also at ensuring a stable regime of legality [20], [21].

### **Comparative Foreign Experience in Prosecutorial and Financial Supervision**

Foreign experience demonstrates that effective protection of legality in the financial and credit sector depends not on the excessive expansion of prosecutorial powers, but on institutional specialisation, timely access to information, risk-based analysis and strict legal safeguards.

In Germany, financial supervision is institutionally concentrated around BaFin, which supervises banks, financial services providers, insurance undertakings and securities markets. BaFin's annual reporting emphasises supervisory priorities, risk assessment, digital resilience and cooperation with other authorities [4]. For Uzbekistan, the German model is useful not as a direct institutional transplant but as an example of professional financial supervision combined with structured cooperation between supervisory and law enforcement bodies.

The United States provides another model through the Financial Crimes Enforcement Network, Suspicious Activity Reports and a strong AML/CFT architecture. FinCEN functions as a financial intelligence institution that collects and analyses information related to suspicious transactions and financial crime [5]. The value of this model for Uzbekistan lies in the idea that suspicious financial behaviour should be identified before criminal harm becomes irreversible. However, the American model cannot be copied mechanically because Uzbekistan has a different prosecutorial, banking and financial intelligence structure.

South Korea is of particular interest due to the development of credit information infrastructure, digital scoring, credit history databases and mechanisms for early identification of credit risks. The Korean experience shows that the integration of credit information, supervisory analytics and digital technologies can significantly strengthen the prevention of non-performing loans and credit fraud [17]. For Uzbekistan, the relevant lesson is the need to develop a unified



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data environment in which banks, regulators and competent authorities can identify risk patterns at an early stage.

The Russian model is relevant primarily in relation to prosecutorial coordination. In Russian legal doctrine, coordination is often understood as the alignment of actions of law enforcement bodies in order to achieve common objectives in combating crime and ensuring legality [6]. This approach is useful for the Uzbek context because credit-sector violations frequently require coordinated action by prosecutors, banking regulators, tax authorities, financial monitoring units, police and courts.

Finally, FATF standards provide the most universal normative framework. The FATF Recommendations establish a comprehensive and consistent system of measures against money laundering, terrorist financing and proliferation financing, while emphasising that countries should apply these standards in accordance with their legal, administrative and financial systems [7]. FATF also recognises the opportunities of digital transformation and new technologies in improving AML/CFT effectiveness [8], [14]. This is directly relevant to the credit sector because credit operations may be used as instruments of concealment, layering or legalisation of illicit funds.

The comparative analysis suggests that foreign models should be treated as adaptable legal and institutional frameworks rather than ready-made solutions. Mechanical transplantation may create institutional conflict, excessive administrative pressure on banks or violations of banking secrecy and personal data rights.

The Uzbek legal system has several specific features that must be taken into account. First, the Prosecutor's Office has a constitutionally and legally defined role in ensuring legality and protecting public interests [2], [3]. Secondly, the Central Bank acts as an independent regulator of the banking system and possesses specialised supervisory competence under banking legislation [10]. Thirdly, the credit sector includes state-owned banks, private banks, non-bank credit organisations and microfinance institutions, which differ in risk profile and public significance. Fourthly, bank secrecy and personal data protection impose legal limits on digital monitoring and interagency exchange [9], [11].



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For this reason, the improvement of prosecutorial activity should be based on institutional compatibility. The Prosecutor's Office should not become a parallel banking regulator. It should instead receive legally defined access to risk-relevant information, use digital tools to identify potential violations, and apply prosecutorial measures only where there are legal grounds. This model would preserve the autonomy of banking supervision while strengthening the rule-of-law dimension of credit-sector governance.

Adaptation also requires gradual implementation. It would be legally and technically risky to impose a comprehensive digital prosecutorial monitoring system on all banks and non-bank credit institutions immediately. A more appropriate model would begin with pilot projects in state-owned banks and high-risk credit programmes, followed by extension to other market participants after evaluation of legal, technical and cybersecurity risks.

### **Digital Transformation of Prosecutorial Activity in the Credit Sector**

Digital transformation is one of the most important directions for improving prosecutorial activity in the credit sector. Traditional paper-based and request-based models of oversight are increasingly inadequate because credit operations, online lending, digital payments and fund transfers occur rapidly and may be difficult to reconstruct after the fact. If a prosecutor receives information only after a formal request and a delayed response, the possibility of preventive action is substantially reduced.

A Prosecutor's Digital Monitoring Platform could serve as an integrated legal-analytical mechanism for identifying credit-sector risks. Such a platform should not provide unlimited access to all banking information. Instead, it should operate on the basis of legally defined risk indicators, procedural grounds, access logs, confidentiality safeguards and strict accountability for misuse of information [9], [11].

The platform could include several functional modules. The first module would identify non-performing loan risks, including repeated restructuring, deterioration of payment discipline, rapid transition from performing to overdue status and concentration of problem loans in particular branches or sectors. In this regard, international prudential approaches, including EU standards on



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credit institutions and risk supervision, may be used as a comparative benchmark [16]. The second module would analyse consumer credit complaints, hidden commissions, unfair contract terms and repeated violations by credit institutions. The third module would monitor large credit operations, state-supported credit programmes and high-risk projects. The fourth module would identify possible connections between borrowers, appraisers, guarantors, credit committee members and bank officials.

Digital monitoring should be evidence-based and legally restrained. Its purpose is not to expand prosecutorial discretion without limits, but to make the detection of violations faster, more objective and more transparent. Every access to the system should be recorded; every data request should have a legal basis; and every analytical result should be subject to human legal assessment.

### **Artificial Intelligence and Risk-Based Prosecutorial Monitoring**

Artificial intelligence may substantially improve the preventive capacity of prosecutorial monitoring, but it must be used as an auxiliary analytical tool rather than as a substitute for legal reasoning. AI can process large volumes of data, identify correlations, detect anomalies and generate risk alerts. However, the final legal assessment must remain within the competence of a prosecutor and, where necessary, a court.

AI tools could be used in several areas. In consumer credit, they may identify hidden commissions, unfair contractual clauses, discrepancies between advertised and actual credit costs, and repeated complaints concerning the same financial institution. In corporate lending, AI may detect connected borrowers, artificially inflated collateral, unusual fund transfers, repeated restructuring without economic justification and inconsistencies between declared turnover and loan size. In online lending, AI may help identify fraud patterns, identity misuse, suspicious device behaviour and mass loan applications linked to the same digital footprint [14], [15].

At the same time, AI-based monitoring creates legal risks. Algorithms may produce false positives, discriminate indirectly against certain groups of borrowers, rely on incomplete data or generate conclusions that are difficult to explain. Therefore, AI systems used in prosecutorial analytics must be



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transparent, auditable and subject to human oversight. A prosecutor should be able to understand why a transaction was flagged as risky and should not rely on algorithmic output as an independent legal conclusion.

The most appropriate model for Uzbekistan would be a risk-based AI system in which algorithms generate alerts, but prosecutors evaluate the legal relevance of each alert. This would combine technological efficiency with the rule-of-law requirement of individualised legal reasoning.

### **Blockchain, RegTech and SupTech in Ensuring Legality in the Credit Sector**

Blockchain, RegTech and SupTech instruments may contribute to the legality and transparency of credit relations, but their role should be assessed realistically. Blockchain may be useful for creating a reliable audit trail of credit funds, especially in state-supported credit programmes, preferential loans, large infrastructure projects and high-risk operations. It can make the movement of funds more transparent and reduce opportunities for alteration of transaction records.

However, blockchain is not a universal solution for all credit-sector problems. It cannot independently determine whether a loan was economically justified, whether a borrower was solvent, whether a credit committee acted lawfully or whether a transaction was corrupt. Its value lies in traceability, not in legal evaluation. Therefore, blockchain-based audit trails should be introduced gradually and selectively, beginning with high-risk public credit programmes.

RegTech tools may assist banks in ensuring compliance with legal, regulatory and AML/CFT requirements. They can automate customer due diligence, transaction monitoring, reporting obligations and internal compliance procedures [7], [15]. SupTech tools, in turn, may assist supervisory and competent authorities in analysing data, identifying systemic risks and improving supervisory decision-making. The integration of prosecutorial analytics with RegTech and SupTech should be built on legal protocols that define data categories, access rights, retention periods, confidentiality obligations and liability for misuse.



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The central legal issue is proportionality. Technological monitoring must correspond to the level of risk. High-risk credit operations may justify enhanced monitoring, while ordinary low-risk consumer transactions should not be subject to excessive prosecutorial data processing.

**Legal Safeguards: Banking Secrecy, Personal Data and Cybersecurity**

Digital monitoring in the credit sector cannot be legitimate unless it is accompanied by strong legal safeguards. Banking secrecy is not merely a technical rule of confidentiality; it is a legal guarantee of trust in the financial system [11]. Personal data protection is also a fundamental requirement in any digital governance model. The Law “On Personal Data” applies to relations arising from the processing and protection of personal data, including processing through information technologies [9].

The main challenge is to establish a balance between effective prosecutorial access and protection of confidential financial information. If access is too narrow, violations may remain hidden. If access is too broad, banking secrecy and privacy may be undermined. The solution lies in a legally structured access model: prosecutorial access should be based on clear grounds, limited to necessary data, logged electronically, subject to internal review and protected by liability for unlawful disclosure.

Cybersecurity is equally important. A digital prosecutorial monitoring platform would process sensitive financial information, personal data and potentially investigative materials. Therefore, it must include encryption, multi-factor authentication, access differentiation, audit logs, incident response procedures and regular cybersecurity assessment. Without such safeguards, digitalisation may create new vulnerabilities rather than reduce legal risks.

Digital evidence also requires procedural clarity. Data obtained through an electronic platform must be reliable, traceable and admissible. The system should preserve metadata, identify the source of information, record access and prevent alteration. This is essential if digital indicators later become part of administrative, civil or criminal proceedings.

Improving prosecutorial activity in the credit sector requires not only technology but also institutional reform. Financial and banking offences are complex: they



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involve loan documentation, collateral valuation, credit scoring, risk management, internal bank procedures, AML/CFT requirements, digital payments, taxation and corporate links. A generalist approach may be insufficient.

For this reason, it is advisable to develop a specialised corps of prosecutors for financial and banking offences. Such prosecutors should receive training in banking law, credit risk analysis, financial accounting, AML/CFT standards, digital evidence, AI-assisted analytics and cyber-fraud. Specialisation would improve the quality of legal qualification, reduce errors in assessing complex credit schemes and strengthen coordination with regulators and law enforcement bodies [20].

Interagency cooperation should also be institutionalised. A formal memorandum or regulation between the Prosecutor's Office and the Central Bank could define the scope, procedure and limits of information exchange. A permanent interagency working group could analyse credit-sector risks and prepare preventive reports. A joint analytical centre could combine data from banking supervision, tax authorities, financial monitoring and prosecutorial practice. The scholarly concept of coordination in prosecutorial activity supports such a model, since complex offences require the alignment of powers and information resources of several competent bodies [6], [21].

Such cooperation should not be punitive by default. Its primary objective should be preventive: to detect risk patterns, identify systemic causes of violations, propose regulatory improvements and prevent harm before it becomes irreversible.

### **Proposed Roadmap for Uzbekistan**

A three-stage roadmap would allow Uzbekistan to modernise prosecutorial activity in the credit sector gradually and safely.

Stage 1 — Legal and institutional preparation. At this stage, it is necessary to clarify the legal grounds for interagency data exchange, define the limits of prosecutorial access to banking information, develop a methodology for digital prosecutorial monitoring, establish safeguards for banking secrecy and personal data, and train prosecutors in financial technologies [3], [9], [11]. Interagency



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protocols should be adopted between the Prosecutor's Office, the Central Bank, tax authorities and financial monitoring bodies.

Stage 2 — Pilot implementation. A pilot Prosecutor's Digital Monitoring Platform should be launched in selected state-owned banks and high-risk credit programmes. AI-based fraud detection may be tested in online lending. A 60-day early warning indicator for non-performing loans should be introduced as an analytical signal rather than an automatic legal classification. Blockchain-based or electronic audit trails may be tested for large credit operations and state-supported lending. The pilot phase should include a legal and technical risk assessment [14], [16].

Stage 3 — Full-scale integration. After evaluation, the platform may be extended to all banks and non-bank credit institutions. Integration with tax and financial monitoring databases should be implemented gradually. Specialised prosecutors should be institutionalised, legal amendments on digital monitoring and accountability should be adopted, and annual analytical reports on legality in the credit sector should be introduced. These reports would help identify systemic risks and evaluate the preventive effect of prosecutorial measures [20], [21].

The first direction of reform should be the creation of a Prosecutor's Digital Monitoring Platform. The main problem is that traditional prosecutorial access to banking information is often delayed and fragmented, while modern credit risks develop rapidly. The legal basis for such a platform should be formed through legislation on the Prosecutor's Office, banking activity, banking secrecy, personal data and cybersecurity [3], [9], [10], [11]. The proposed solution is not unlimited online access to banking databases, but a legally restricted monitoring mechanism based on risk indicators, authorised access, logging and confidentiality. The expected result is a faster, more precise and more preventive model of prosecutorial analysis.

The second direction concerns the approval of a digital data exchange protocol between the Prosecutor's Office and the Central Bank. At present, the absence of a unified procedural model may create uncertainty regarding the scope, timing and format of information exchange. A formal protocol should determine the types of information that may be exchanged, the grounds for access, the deadlines for response, the protection of confidential data and the responsibility



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for misuse. Such a protocol would reduce institutional friction and make cooperation more predictable.

The third direction is the introduction of AI-based risk indicators. Credit-sector violations are often hidden behind formally correct documentation, and manual review cannot always detect patterns of connected lending, artificial restructuring or inflated collateral. AI tools should be used to identify suspicious credit operations, repeated complaints, hidden consumer credit charges, unusual fund movements and links between borrowers and bank officials [14], [15]. The expected result is earlier detection of high-risk transactions, while final legal evaluation must remain with prosecutors.

The fourth proposal is the introduction of a 60-day early warning mechanism for non-performing loans. The existing approach based on longer periods of delay may be insufficient for preventive oversight. A 60-day indicator should not automatically classify a loan as non-performing, but it should trigger enhanced monitoring and legal analysis where additional risk factors are present. This would enable earlier intervention in cases of artificial restructuring, concealment of deteriorating credit quality or misuse of credit funds [16], [17].

The fifth direction is the clarification of safeguards for banking secrecy and personal data protection. Digital monitoring may become ineffective if access to banking information is too limited; however, it may become unlawful if access is too broad. Therefore, legislation should clearly define the grounds, scope, procedure and limits of prosecutorial access to banking data. All access should be logged, auditable and subject to liability for unlawful disclosure [9], [11].

The sixth proposal is the formation of specialised prosecutors for financial and banking offences. The complexity of credit-sector violations requires knowledge of banking law, credit risk, financial monitoring, collateral valuation, digital evidence and AML/CFT standards. Specialisation would improve the quality of prosecutorial decisions, strengthen cooperation with the Central Bank and reduce errors in identifying financial crime schemes [20], [21].

The seventh direction is the gradual integration of RegTech and SupTech tools into banking compliance and supervisory activity. Banks should use RegTech to strengthen internal compliance, customer due diligence, monitoring of suspicious operations and reporting obligations. Supervisory and prosecutorial



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bodies may use SupTech-style analytics to detect systemic risks [7], [8], [15]. The integration of these tools should be based on legal protocols and proportionality.

The eighth proposal concerns blockchain-based audit trails for state-supported and large credit operations. Since such credits often involve public interest and higher risks, blockchain or electronic audit mechanisms may increase transparency in the movement of funds. However, this should begin as a pilot project, because blockchain is useful for traceability but cannot replace legal evaluation, risk assessment or prosecutorial discretion.

The ninth direction is strengthening the accountability of credit committee members. Collective decision-making should not dilute individual responsibility. Credit committee protocols should record the grounds for decisions, the position of responsible persons, the assessment of solvency, the valuation of collateral and the existence or absence of conflicts of interest. This would make later legal review more objective and reduce opportunities for abuse [12], [13].

The tenth proposal is the introduction of an annual prosecutorial analytical report on legality in the credit sector. Such a report should not disclose banking secrets or personal data, but it should summarise systemic risks, typical violations, preventive measures, interagency cooperation results and reform needs. The expected result is a shift from case-by-case reaction to evidence-based policy improvement.

## **Conclusion**

Ensuring legality in the credit sector is a strategic component of financial security, protection of citizens' rights and economic stability. The Prosecutor's Office should not replace banking supervision or commercial decision-making. Its role is to ensure that credit relations remain lawful, transparent, accountable and consistent with public interest.

The analysis demonstrates that the improvement of prosecutorial activity requires a transition from a reactive model to a preventive, analytical, digital and risk-based model. Comparative foreign experience is useful only if it is adapted to national legal and institutional realities. The experience of Germany, the



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United States, South Korea, Russia and FATF standards suggests that financial-sector legality depends on specialisation, data exchange, early warning systems, digital analytics and strict safeguards.

AI, blockchain, RegTech and SupTech may improve the effectiveness of prosecutorial analysis, but they must operate within the limits of legality, proportionality, banking secrecy, personal data protection and cybersecurity. Technology should assist prosecutors, not replace legal reasoning or judicial control.

For Uzbekistan, the most appropriate reform path is gradual: first, legal and institutional preparation; second, pilot implementation in high-risk areas; third, full-scale integration supported by specialised prosecutors, digital platforms and annual analytical reporting. Such an approach would strengthen the rule of law in the credit sector while preserving the legitimate autonomy of banking activity and the confidentiality of financial information.

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