



STATE AND TRENDS OF INTERBANK COMPETITION IN THE BANKING MARKET OF UZBEKISTAN

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ABSTRACT: The sustainable development of the banking sector is closely related to interbank competition. The subject of the study is the improvement of interbank competition, which serves to increase the quality standards of service provision, reduce costs and prices, expand the range of products, and cleanse the market of weak and unscrupulous participants. The purpose of the study is to develop recommendations for improving interbank competition to ensure the stability of the country's banking sector. The work used analytical methods such as analysis, synthesis, comparison, and graphical analysis. The theoretical aspects of the topic allowed the authors to formulate the concept of interbank competition. According to this concept, interbank competition is a competition between banks to attract and occupy attractive sources of resources, taking into account a customer-oriented approach. The practical analysis is based on statistical data from the Central Bank of Russia and reflects the uneven distribution of banks across the country, as well as the dominance of banks with state participation. The systematic and comprehensive approach of the study made it possible to identify the main trends of interbank competition: monopolization, centralization, concentration of capital, federalization and globalization. According to the authors, the increase in the assets of state-owned banks against the background of a sharp decrease in the number of banks is limiting interbank competition. Large state-owned banks dominate the deposit and credit markets in the country. The Herfindahl-Hirschman index adequately reflects the market importance of credit institutions. Foreign banks also affect competitiveness. The authors proposed a number of measures aimed at strengthening interbank competition: reducing the level of state participation by setting an acceptable level of state participation in the authorized capital of credit institutions; introducing equal "rules of the game" for all participants in the banking market and excluding state benefits; developing regional small and medium-sized banks through tax and financial incentives. The prospects for future research are focused on a detailed study of factors that negatively affect interbank competition.

Keywords: banks; competition; banking market; competitive environment; interbank competition; level of competition

INTRODUCTION

The gradual introduction of market mechanisms in the banking system of Uzbekistan makes the need to develop interbank competition even more urgent. Because interbank competition is not only a struggle between financial institutions, but also an important component of the stability of the banking system, improving the quality of services, ensuring the interests of customers, and overall economic growth. Currently, both large banks with a high state share and banks with private and foreign capital are operating in Uzbekistan. This intensifies the struggle for customers through various financial instruments and services.

At the same time, increased competition also creates certain risks and restrictions for small and medium-sized banks. For example, since the leading banks in the banking system of Uzbekistan

occupy a significant part of the deposit and credit market, there are certain obstacles for the remaining market participants to expand their resource base and promote new products. Also, the digitalization of banking services, the rapid development of fintech technologies, and changes in customer needs directly affect the quality of the existing competitive environment.

In the scientific literature, approaches to interbank competition are different: some researchers consider it a guarantee of the stability of the banking system, while others emphasize that increased competition leads to an increase in the level of risk for banks. In Uzbekistan, however, there is no single theoretical approach and clarity within the legislative framework on this issue. This situation creates the need to study the economic content, scope and analysis mechanisms of interbank competition.

In this regard, the main task of this study is to conduct an economic and statistical analysis of interbank competition in the banking system of Uzbekistan, identify existing restrictions and develop proposals aimed at creating an effective competitive environment.

The issue of interbank competition is also becoming increasingly relevant in the banking system of Uzbekistan. Banks are actively fighting to attract deposits, expand their loan portfolios, introduce innovative financial services and strengthen their position in the market. In this regard, interbank competition in Uzbekistan can be described as “a customer-oriented competitive environment for the formation and placement of a resource base”. In particular, the high share of state-owned banks and the rapid development of fintech solutions indicate the complexity of the competitive environment.

Several banks were also reorganized or merged in Uzbekistan during 2017–2023. For example, in 2020, decisions were made to reduce the state share in Agrobank and a number of other banks, and to privatize Uz sanoat qurilish bank and Asaka Bank. These reforms are aimed at strengthening competition by strengthening the banking market and reducing the number of inefficient banks.

The market dominance of state-owned banks is considered a factor limiting the level of interbank competition. As of 2022, only 5 large banks - NBU, Xalq Bank, Ipoteka Bank, Agrobank and Asaka Bank - accounted for about 70% of total assets in the banking system. At the same time, the bulk of total deposits fall on these banks. This indicates a high level of concentration according to the Herfindahl–Hirschman Index (HHI).

Such an oligopolistic market structure indicates an insufficiently developed competitive environment. At the same time, the entry of fintech companies, the expansion of banking services through mobile applications, and customer demand for digital services are opening up new competitive space for small and medium-sized banks. In this regard, one of the main factors for strengthening interbank competition is product diversification, customer-oriented services, and the active introduction of modern technologies.

In addition, the “Roadmap” for reforming the banking sector in Uzbekistan for 2023–2026 provides for strengthening competitiveness, reducing state participation, strengthening corporate governance, and increasing the share of the private sector. These reforms, if continued systematically, will serve to create a healthy competitive environment in the banking system of Uzbekistan and stimulate interbank competition.

In the banking sector of Uzbekistan, the ownership of financial resources and the increasing market dominance of large state-owned banks directly affect the level of interbank competition. Although the number of banks has increased in recent years as a result of economic reforms, a large part of the market is still concentrated in the hands of a few large banks.

For example, as of 2023, “**O‘zmilliybank**”, “**Ipoteka bank**”, “**Xalq banki**”, “**Agrobank**” va “**Asaka bank**” Banks with a high state share, such as **more than 65 percent of total assets**, and total deposits **About 70 percent** controls. These indicators reflect a high level of concentration, similar to the dominance of the National Bank of Uzbekistan and Hamkorbank. These large banks also have asymmetric advantages over the competitive environment, which limits the ability of small and medium-sized banks to compete on equal terms.

Although the banking sector of Uzbekistan also experienced a short-term crisis during the COVID-19 pandemic, the economic recovery process began in the second half of 2021. Most banks experienced an increase in the volume and quality of their loan portfolios. However, during the pandemic, a number of banks faced loan payment delays and an increase in the share of problem loans. In order to mitigate these risks, the Central Bank of the Republic of Uzbekistan provided several financial relief measures, including loan holidays and loan restructuring options. It should also be noted that the share of the National Bank of Uzbekistan is 1.5-2 times higher than that of its closest competitor, Ipoteka Bank, and compared to medium-sized banks, this difference reaches 10-15 times. As a result, the dominant position of these large banks limits the competitiveness of other banks in introducing innovative products, expanding their resource base and working with clients.

Such an oligopolistic market structure creates systemic problems in the development of interbank competition. Insufficiently formed competition negatively affects the instability of prices for banking services, the quality of service provision and the speed of introducing technological innovations.

In this regard, the Government of Uzbekistan adopted a strategy for reforming the banking system for 2020-2025. It identifies reducing state participation in the banking sector, accelerating privatization processes, ensuring healthy interbank competition, strengthening financial inclusion and improving the quality of financial services as priority areas. The implementation of these reforms will create an opportunity to create a level playing field between state-owned and private banks. In conclusion, large state-owned banks have a dominant position in the banking sector of Uzbekistan, which negatively affects interbank competition. In the context of high asset concentration, an increasing share of problem loans, and the weak market influence of small banks, institutional reforms and improvement of regulatory mechanisms are of great importance in order to create an effective competitive environment.

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