

# Methodological Principles of The Influence of Competition Between Commercial Banks on Economic Indicators

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## Abstract

This article examines the methodological aspects of the impact of competition between commercial banks on economic indicators. A formula summarizing the internal and external criteria affecting banks was proposed, and through this formula, criteria for the methodological aspects of the influence of competition between banks on economic indicators were developed.

**Keywords:** Competition, interbank competition, economic indicators, methodological aspect, internal criterion, external criterion.

## INTRODUCTION

Today, commercial banks are carrying out important economic reforms as the locomotive of the economy. As a result of the development of competition between commercial banks, this sector is creating the foundation for our economy. If we analyze it based on the various social and political situations occurring in the world practice, many problems are arising in the field of banks, which are the engine of the economy, even in the most developed countries. As a result, a sharp change in the situation in the world interbank market has a sharp impact on the banking system of these developing countries. Especially, the change of political situation has a great influence on these processes. Paying special attention to the situation in their competitive market while protecting against various external and internal factors affecting the banking system. At the same time, reconsidering the methodological aspects of the impact of economic indicators, which are important in ensuring competition, can be considered as one of the important problems today. The main focus of the world community's research in this field is to increase the bank's performance through digitization and maintain its position in the competitive market. In the development of the banking system, their economic performance is good, which leads to an increase in their customers and an increase in their confidence in the bank. But at the same time, the introduction of new banking services into a wide competitive market in working with customers can cause banks to lose their place in the competitive market if they do not improve the quality service system for customers. Therefore, if our commercial banks do not apply in time any effective new banking technologies that are currently entering the competitive market, they may be out of the competitive market.

Nowadays, the most important factor to achieve a high level of digital development is based on the presence of the Internet, the number of users and the computerization of the population.



Development of the national economy, its growth of the project of the development strategy of the new Uzbekistan for 2022-2026, aimed at creating the necessary political-legal, socio-economic and scientific-educational foundations of the reforms to be implemented in our country in the next five years based on the principle "From the strategy of actions - to the strategy of development" increasing the volume of the digital economy by 2.5 times, increasing the volume of the software products industry to 500 mln. The issue of delivery to US dollars is included ." [10]

Along with the achievements, there are problems, there is a lot of work to be done, as President Sh. Mirziyov noted, "Of course, we know very well that the formation of the digital economy requires the necessary infrastructure, a lot of money and labor resources. However, no matter how hard it is, if we don't start today, when will we?! Tomorrow will be too late. Therefore, active transition to the digital economy will be one of our top priorities in the next 5 years." [1] Of course, by digitizing banks, it will be possible to increase their activity in the competitive market, and at the same time, to improve their economic indicators, to achieve the set goals. In the banking system of our republic, we are witnessing that in the following years, a number of works are being carried out to increase the quality and scope of banking services to customers. But as we mentioned above, the changes taking place in the world, the process of globalization, integration, activity in the competitive market, the excessive development of competitiveness, the need to accelerate the transformation process of commercial banks, to bring the bank services and services provided to bank customers to a new level. In this regard, President Sh.M. Mirziyoev said in a letter to the Oliy Majlis, "Starting from 2020, a large-scale transformation program will be implemented in every bank. In this regard, increasing the capital, resource base and income of our banks will be in the center of our special attention.

The analysis of the current situation in the banking sector of our republic shows a high level of state intervention in the banking system, the lack of implementation of the quality of management and risk management in state-owned banks into full banking practice, a low level of financial mediation by banks in economic processes, which at the same time prevents the development of the banking sector in accordance with economic reforms and the needs of society. indicating the existence of a number of systemic problems. One of such problems is the fact that the indicators that serve to form the competition between commercial banks have not been adapted to new digital technologies.

## **2.Literature Review**

Many studies aimed at creating methodological foundations of the impact of competition between commercial banks on economic indicators have been conducted. In this, scientists focused on determining the impact of economic indicators that determine the balance between interbank competition and stability, and conducted research on their application based on a methodologically correct approach. In particular, in this study, "competitive advantages of the bank must be reflected in the commercial bank's product, price, service quality, affordability and other indicators, that is, they must be measured and evaluated by economic indicators.



They believe that such indicators should be reflected in high profitability, large market share, high sales volume, more attracted customers, etc. [9]

If we pay attention to the opinion put forward in the research, here the main focus is on ensuring the competitiveness of commercial banks in the competition market, it is determined that it should be implemented on the basis of its most important economic indicators. Researcher Weill L., in a methodological study of economic indicators that shape bank competition, suggests that "competition between banks should be understood as a process of changing economic indicators, each of them should take its place based on established criteria and maintain it for as long as possible, and when banks change their position in the market, striving to improve in different ways" he assessed. [8] Other researchers, in the methodical assessment of bank competition based on certain indicators, make the following point: "they understand the economic indicators of competition between banking market entities as a dynamic process to ensure a strong position by banks in the market. [5]

" American economist G. According to Moore, in the methodological review of the impact of commercial bank competition on economic indicators, he considers that "bank competition is an important quality that determines the mechanism of proper functioning and development of services in the entire banking market. [3]

" This opinion of the scientist was supported by many scientists who conducted research in this field. In fact, according to the scientist, it is necessary to pay attention to the situation in this market when determining the important characteristic of competition. It was concluded that the higher the quality of competition in the banking market, the more positive its impact on other economic indicators. In this, it is possible to participate in the banking market as an activity of the subjects of society, based on the understanding of economic laws and within the framework of selected models of financial behavior of credit and financial institutions, aimed at the implementation of various economic interests.

According to some authors, economic indicators of banking competition may affect not only banks, but also other financial and non-financial institutions that are participants of the banking market. Based on this understanding, the impact of bank competition on economic indicators is considered only as a "subjective-dynamic" process of competition between participants of the banking market, the main goal of which is to strengthen and expand their positions in the market, and the impact on economic indicators is considered as the next factor. [2]

In some studies conducted, "bank competition is based on the structural process of competition between different credit organizations in the evaluation of its impact on economic indicators, as economic indicators are indicators in the market of loans, deposits and other banking services, as well as various indicators that are important for maintaining their position in alternative financial markets or other exclude the possibility of type interaction".[5]

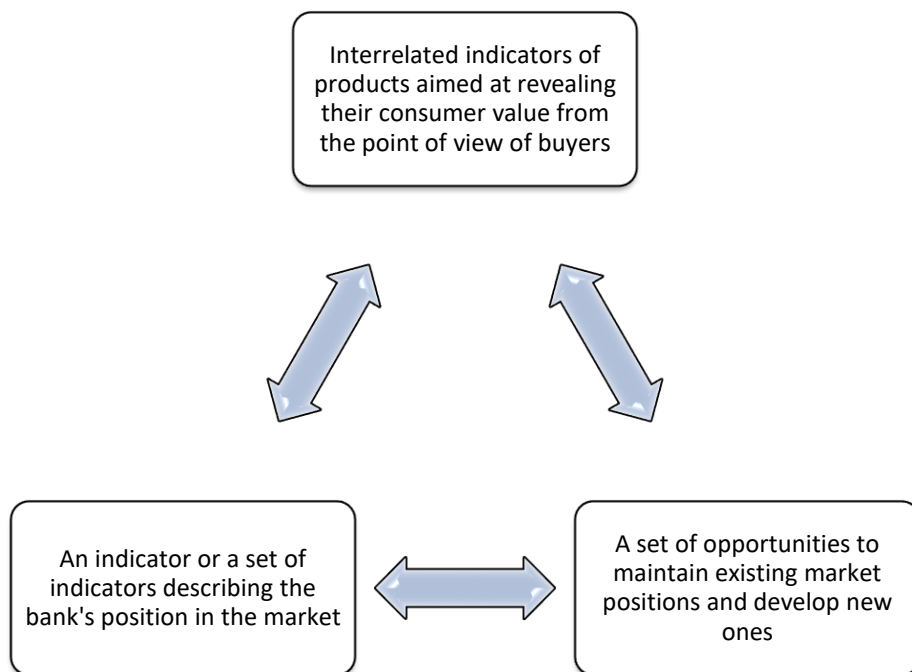
Methodologically studying the impact of bank competition on various economic indicators and studying its essence through the most important characteristic of banking services in the market - its competitiveness, is considered appropriate. In the market of interbank competition, a general opinion on the nature of banks' competitiveness and its interaction with economic indicators has not yet been developed. The most common concept of competitiveness as we



know it is the ability to compete in the markets of goods and services. To determine the competitiveness of the banking service, it is necessary to compare its characteristics with the characteristics of the services of competitors and to study the behavior of customers and their attitude to services.

"A bank's competitiveness is the same as its competitive potential, and their widespread use means achieving market superiority based on economic indicators. At the same time, the competitive position of the bank is determined not only by the quantity and quality of its competitive advantages, but also, first of all, by the result and scope of the economic indicators of the financial market covering the banking competition. At the same time, commercial banks must maintain existing customers, as well as gain new customers' advantages by developing new tools and territories [6]

According to C. Skinner, there are three main approaches to determining the bank's competitiveness. Thus, competitiveness:



**Figure 1. Three main indicators for determining the competitiveness of commercial banks (with economic indicators) [7]**

Analyzing the above definitions, we can conclude that the dynamic process of competition between banks and other credit organizations is understood as the methodological basis of the impact of banking competition on economic indicators, as a result of which banking services gain a stable position in the market of interbank competition. Due to competition, the range of services is expanding, the prices of banking products and services are regulated at an acceptable level. Competition is the strongest incentive for banks to switch to effective methods of providing services, that is, it creates a favorable environment for their development and improvement.



### 3. Research Methodology

When studying the methodological foundations of the impact of competition between commercial banks on economic indicators, it is necessary to evaluate them through two important internal and external influencing criteria. In this regard, it is recommended that the methodological aspect proposed by us be put into practice through a formula summarizing the internal and external criteria affecting banks. The general view of this formula is as follows:

$$S_{Rti} = \frac{I_{ap} + I_{ke} + I_{rd} + I_{bi}}{T_{ad} + T_{mit} + T_{mak}}$$

The criteria of this formula are of a recommendatory nature, in which the constant change of the situation in the interbank competition market ensures the accuracy of the indicator. This means that the influence of competition between commercial banks on economic indicators is methodologically correct.

### 4. Analysis and Results

In the studies conducted on the impact of competition between commercial banks on economic indicators, the main attention is limited to the economic indicators of banks. As we know, the impact of external factors on commercial banks also has a dramatic impact on their competitive market. In addition to changing their level of competitiveness, this can lead to drastic changes in the competitive market. Therefore, it is necessary to methodically study the influence of other external economic indicators in the competitive market by banks. We describe the appearance of this interdependence process as follows.

Internal indicators of commercial banks are indicators that directly affect its activity. The criteria for evaluating the internal situation of commercial banks include the following.

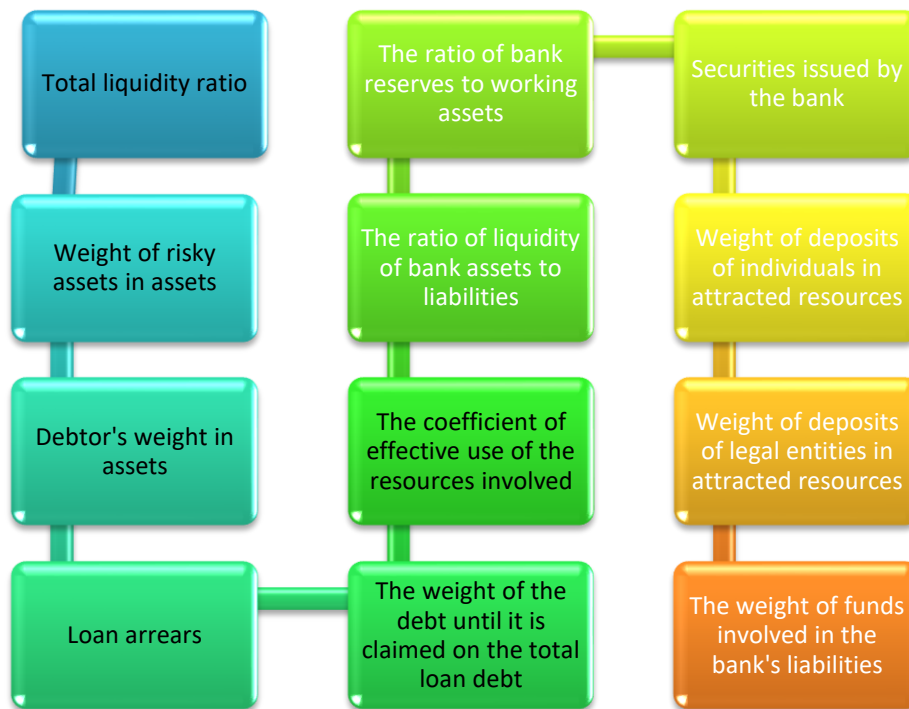
- criteria for assessing assets and liabilities of commercial banks;
- capital adequacy criterion of commercial banks;
- profitability and profitability criteria of commercial banks;
- criterion for evaluating the image of commercial banks.

The criteria for evaluating the external condition of commercial banks include the following.

- criterion of living dynamics of the country's population;
- a criterion for assessing the real state of the country's economic network;
- a criterion for assessing the real state of the country's macroeconomic indicators.

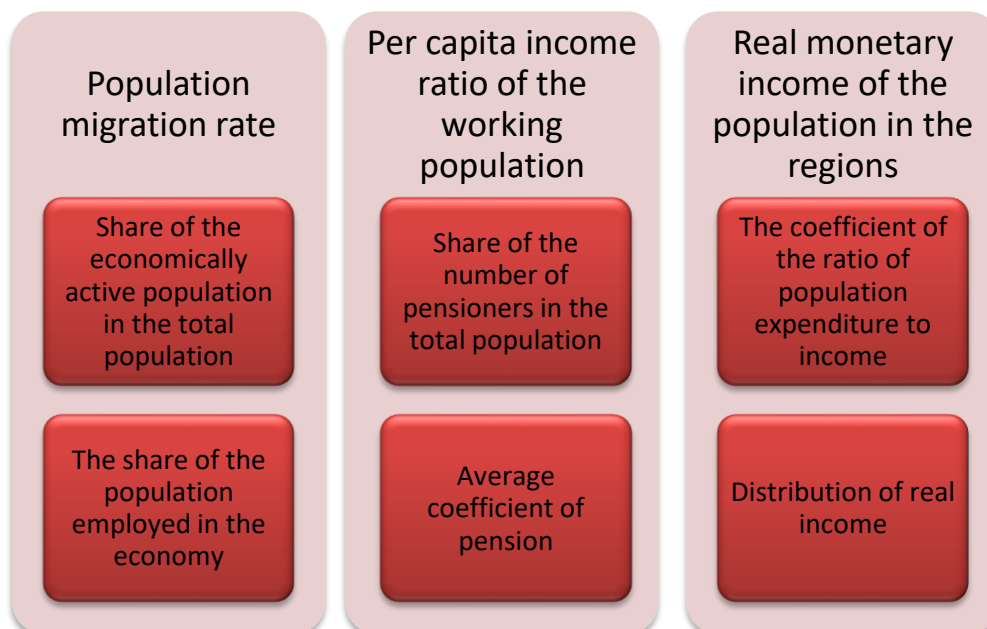
The above-mentioned criteria include almost all indicators in the internal criteria of banks, including the criteria for assessing assets and liabilities of commercial banks.





**Figure 3. criteria for assessing assets and liabilities of commercial banks**

Similarly, if we look at the criterion of the living dynamics of the country's population from the criteria for evaluating the external situation, the following indicators are included in it:



**Figure 4. The criterion for evaluating the external situation is the living dynamics of the country's population**

On the basis of these indicators, when studying the influence of commercial banks through competition, their criteria may be different. As we know, the Herfindahl-Hirshman index





(HHI), which is widely used in world practice, is used to evaluate the interbank competition market of commercial banks. The Herfindahl-Hirshman index is one of the commonly accepted measures of market concentration and is used to determine market competitiveness. A market with an HHI below 1,500 is considered a competitive market, a market with an HHI between 1,500 and 2,500 is moderately concentrated, and a market with an HHI of 2,500 or higher is highly concentrated.

The methodical aspect proposed by us is recommended to be put into practice through a formula summarizing the internal and external criteria affecting banks. The general view of this formula is as follows:

$$S_{Rti} = \frac{I_{ap} + I_{ke} + I_{rd} + I_{bi}}{T_{ad} + T_{mit} + T_{mak}}$$

Here,  $S_{Rti}$ - the index of the impact of competition between commercial banks on economic indicators,  $I_{ap}$ - the criterion for evaluating the assets and liabilities of commercial banks,  $I_{ke}$ - the criterion for the adequacy of the capital of commercial banks,  $I_{rd}$ - the criterion for profitability and profitability of commercial banks,  $I_{bi}$ - the criterion for evaluating the image of commercial banks,  $T_{ad}$ - the living dynamics of the country's population criterion,  $T_{mit}$ - the criterion for assessing the real state of the country's economic network,  $T_{mak}$ - the criterion for assessing the real state of the country's macroeconomic indicators.

$S_{Rti}$ - the index of influence of competition between commercial banks on economic indicators ( $0 < S_{Rti} < 1$ ) will have intermediate values. The criteria for its change are recommended as follows:

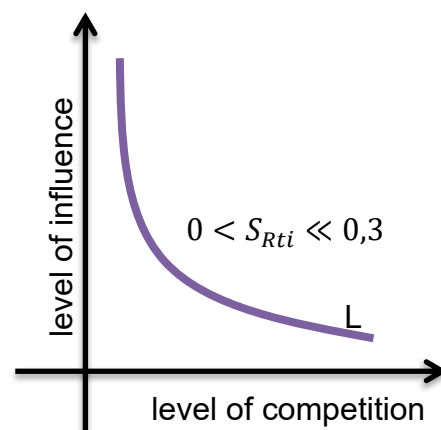
If  $0 < S_{Rti} < 0,3$ , so, the effect of competition between commercial banks on economic performance will be negligible.

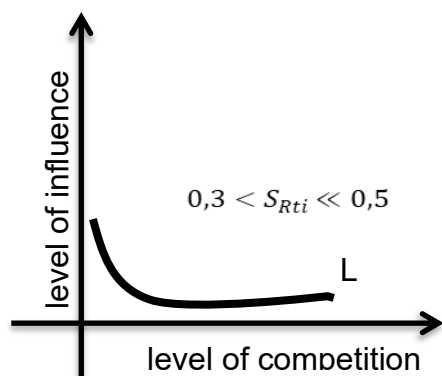
If  $0,3 < S_{Rti} < 0,5$ , so, the impact of competition between commercial banks on economic performance will be significant.

If  $0,5 < S_{Rti} < 0,7$ , so, the effect of competition among commercial banks on economic performance is moderately significant.

If  $0,7 < S_{Rti} < 1$ , so, the impact of competition between commercial banks on economic performance will be high.

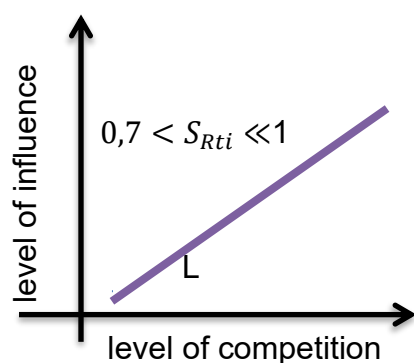
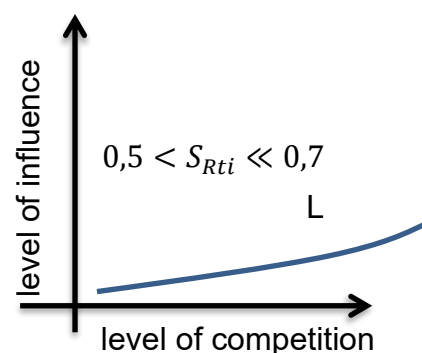
According to each criterion, the characteristics of banks in the interbank competition market are different. In particular, in the first case ( $0 < S_{Rti} < 0,3$ ), there is almost no competition between commercial banks, and the HHI index is below 1500. In this case, the impact of competition on economic indicators is not felt. Its change in graphic form will be as follows. In this case, as the level of competition increases, the level of influence decreases, because  $S_{Rti}$  the value  $0 < S_{Rti} < 0,3$  is in this range.





In the second case ( $0,3 < S_{Rti} \ll 0,5$ ), competition between commercial banks exists in some cases, where the HHI index is higher than 1500 and lower than 2600. In this case, the impact of competition on economic indicators will be significant. Its change in graphic form will be as follows. In this case, as the level of competition increases, the level of influence also changes significantly,  $S_{Rti}$  the value  $0,3 < S_{Rti} \ll 0,5$  is in this range.

In the third case ( $0,5 < S_{Rti} \ll 0,7$ ), there is competition between commercial banks, in which the HHI index is equal to 2600. In this case, the impact of competition on economic indicators is moderately significant. Its change in graphic form will be as follows. In this case, as the level of competition increases, the level of influence also changes significantly,  $S_{Rti}$  the value  $0,5 < S_{Rti} \ll 0,7$  is in this range.



In the fourth case ( $0,7 < S_{Rti} \ll 1$ ), the competition between commercial banks is strong, and the HHI index is higher than 2600. In this case, the impact of competition on economic indicators is highly significant. Its change in graphic form will be as follows. In this case, as the level of competition increases, the level of influence also changes significantly,  $S_{Rti}$  the value  $0,7 < S_{Rti} \ll 1$  is in this

range. In this case, the competition in the interbank competition market is strong, and changes in the market activity of banks in each case affect their economic indicators. As a result, any new technology-based services offered by banks to customers will help to change their position in the interbank competition market.[12]

As can be seen from the figures, certain conditions are required to form, implement and maintain a competitive and competitively competitive commercial bank. In our opinion, it is desirable to implement the following conditions:[11]

1. It will be necessary for the bank to constantly introduce new innovations based on the analysis of the needs of its customers and the latest technologies in the banking business.
2. Continuously develop and introduce new banking products and services through extensive implementation of digital marketing activities in the competitive interbank market.





3. The characteristics of the bank in the interbank competition market are related to the qualification, initiative and professionalism of the employees, which requires continuous professional training of the bank employees.

4. In the market of interbank competition, a bank should be distinguished by its most important features and ability to introduce products and services required by the client.

5. It is necessary for the bank to adapt to the constant changes in the business environment of its customers and improve its operations based on their suggestions.

6. The bank should take care of the attractiveness of its brand, image and efficiency of business processes, organizational structure and other intangible assets, including knowledge and professional skills of bank employees.

### 5. Conclusions and Suggestions

The following conclusions were drawn while showing the methodological basis of the influence of competition between commercial banks on economic indicators:

First, it was justified that the effect of competition between commercial banks on economic indicators covers all its indicators methodologically.

Secondly, it was suggested to methodically assess the impact of competition between commercial banks on economic indicators based on two internal and external criteria.

Thirdly, it was recommended to include the following in the internal criteria of the impact of commercial bank competition on economic indicators:

- criteria for assessing assets and liabilities of commercial banks;
- capital adequacy criterion of commercial banks;
- profitability and profitability criteria of commercial banks;
- criterion for evaluating the image of commercial banks.

The criteria for evaluating the external condition of commercial banks were proposed as follows:

- criterion of living dynamics of the country's population;
- a criterion for assessing the real state of the country's economic network;
- a criterion for assessing the real state of the country's macroeconomic indicators.

Fourthly, the methodical aspect was recommended to be put into practice through a formula summarizing the internal and external criteria affecting banks. In this case, it is recommended to evaluate the level of impact through the following criteria:

If  $0 < S_{Rti} \ll 0,3$  so, the effect of competition between commercial banks on economic performance will be negligible.

If  $0,3 < S_{Rti} \ll 0,5$  so, the impact of competition between commercial banks on economic performance will be significant.

If  $0,5 < S_{Rti} \ll 0,7$  so, the effect of competition among commercial banks on economic performance is moderately significant.

If  $0,7 < S_{Rti} \ll 1$  so, the impact of competition between commercial banks on economic performance will be high.



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