



## Issues of Formation of Interbank Competition in Uzbekistan

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### ABSTRACT

The article is devoted to research of features of interbank competition and its role in the development of banking system. A critical analysis of the problems of Uzbekistan's banking system, the proposed methods of strengthening of competitive advantages of commercial banks.

### Keywords:

Commercial banks, banking system, competition, competitive, banking products, development of financial market.

The banking system is one of the most important and integral structures of the modern financial market, because of which the increase in the competitiveness of commercial banks is of paramount importance for the effective organization of banking services. The development and expansion of operations offered by commercial banks has a direct impact on strengthening competitiveness.

The formation of interbank competition is necessary for the development of the banking system of Uzbekistan, as well as for identifying gaps in the activities of commercial banks. Only by eliminating the problems associated with the operations of commercial banks in the money market, we can talk about the development of interbank competition, the real sector of the economy, and full integration into the international banking system.

Commercial banks, due to their inherent features, have the right to engage in many financial transactions: from making settlements for the obligations of their customers and raising funds, to lending to economic entities and the population. In this

regard, the banking sector is the most vulnerable sector of the economy in terms of financial risks. It is obvious that such a policy of the bank, in which loans are issued to insolvent borrowers or having a dubious financial condition, ultimately leads to the risk of default, creating a situation that is dangerous both for the interests of depositors and shareholders, and for the bank itself.

At the present, in order to further improving the financial stability and liquidity of commercial banks, as well as increasing their profitability, developing their resource base, it has been determined to expand the range and quality of banking services provided with the widespread use of advanced information and communication technologies, as well as expand the system of cashless payments using banking plastic cards. <sup>1</sup>

Because of ongoing reforms in the banking system, market mechanisms for the provision of services are being introduced, their types are expanding, and financial accessibility for entrepreneurs and the population is increasing. <sup>2</sup>

New banking services have been introduced to facilitate the conduct of currency exchange transactions for the population, conditions have been created for the acquisition of foreign currency by individual entrepreneurs. Such new approaches in banking activities contribute to increasing the bank's income.

If in 2017 the banking system of the Republic of Uzbekistan included 28 commercial banks, then at the beginning of 2022 there were 34 of them. All these banks provide the traditional range of banking services: lending, deposit operations, settlement and cash services, etc.

The Decree of the President of the Republic of Uzbekistan dated May 12, 2020 "On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2021-2025" states: "... based on the tasks identified by the State Program for the implementation of the Action Strategy in five priority areas of development of the Republic of Uzbekistan in 2017-2021 years in the "Year of Development

of Science, Education and the Digital Economy", approved by Decree of the President of the Republic of Uzbekistan dated March 2, 2020 No. UP-5953, as well as in order to carry out a radical transformation of the banking sector aimed at stimulating the development of the private sector, increasing the investment attractiveness of banks, availability and quality of banking services, it is necessary to improve the efficiency of the banking system by creating equal competitive conditions in the financial market, lending exclusively on a market basis, reducing the dependence of banks on public resources, modernizing banking services, creating effective information restructuring and automation of the activities of banks, as well as the phased abolition of non-core functions of banks" The goal of the Strategy is to carry out comprehensive reforms in the banking system aimed at creating a modern banking system, increasing the investment attractiveness of banks and introducing new standards of banking services (Tab 1).

#### Adequacy of equity capital of banks of Uzbekistan

Indicator name	01.02.2021y		01.02.2022y	
	Billion sum	Share in %	Billion sum	Share in %
First tier capital	53 415	90.1 %	64 302	89.2%
Main capital	53 297	89.9%	64 107	88.9%
Extra capital	118	0.2%	195	0.3%
Second tier capital	5 844	9.9%	7 802	10.8%
Total regulatory capital	59 259	100%	72 104	100%
Capital adequacy ratio	18.5%		17,4%	
First tier capital ratio	16.7%		15.5%	

From the above data, we can conclude that the effective placement of securities of commercial banks and the increase in their profitability makes it possible to raise second-tier capital.

At present, a significant increase in First level 1 capital is considered a rather complicated operation. However, the transformation to digital technologies widens the path to an increase in the capital adequacy ratio of commercial banks.

Reducing the state share in the banking sector through a comprehensive transformation of commercial banks with a

state share, the introduction of modern banking standards, information technologies and software products, the sale of the state block of shares of banks on a competitive basis to investors with the appropriate experience and knowledge, as well as the parallel reform of commercial banks and enterprises with a state share are priority areas for reforming the banking system of the Republic of Uzbekistan<sup>16</sup>.

What banks are the most attractive and on what factors does the competitiveness of a commercial bank depend?

The leaders of the rating for the previous period retained their positions and the top three most active banks were again headed by Kapitalbank, Hamkorbank and Trustbank; Agrobank and Turonbank showed rapid growth, and some banks like Halyk Bank and Asakabank significantly worsened their positions.

The Center for Economic Research and Reforms (CERR) has developed the Banking Activity Index for 31 commercial banks in Uzbekistan. Based on the Index, the CERR updates the rating of banks on a quarterly basis.

The study is conducted to monitor changes in the share of the private sector in banking assets, as well as to assess the effectiveness of reforms and transformation processes in the country's banking sector.

According to the approved Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025, it is planned to gradually privatize state shares in Ipoteka-Bank, Uzpromstroybank, Asaka Bank, Aloqabank, Qishloq Qurilish Bank and Turonbank. At the first stage, the transformation of their activities is envisaged, at the second stage - the sale of the state block of shares.

It is expected that after the privatization of large state-owned banks there will be

significant changes in the financial services market, as a result of which new services and competition will appear.

The state share will be retained in the authorized capitals of the National Bank for Foreign Economic Affairs of Uzbekistan, Agrobank and Microcreditbank.

As of September 1, 2021, the assets of the banking system of the republic amounted to 403.8 trillion. soums (growth by September 1, 2020 22.5%), liabilities - 339.3 trillion. soums (growth 24%), total capital - 64.5 trillion. soums (growth 15.2%). Today, more than 57,000 people work in the banking system.

In the CERR study, banks were divided into two groups - large and small. The rating is compiled separately for each of these groups. At the same time, the group of small banks includes banks operating only in Tashkent (or only in one region).

Rating of activity of large banks for the third quarter of 2021.

Among the 17 large banks, Kapitalbank still retains its leadership, holding it since the second quarter of 2020. In particular, the volume of fixed-term bank deposits increased by 27.1% compared to the previous period and amounted to 5.8 trillion. soums. The ratio of time deposits to the total amount of loans reached 90% (banking system - 24%). (Table 2)

**Rating of activity of large banks for the third quarter of 2021**

No	Bank	Overall rating	Rating change	Rating on financial intermediation	Financial accessibility rating	Capital adequacy rating	Asset quality rating	Management quality rating	Rating by profitability	Liquidity rating
1	Kapital bank	1	0	1	5	15	5	9	12	4
2	Khamkor bank	2	0	8	2	14	3	7	4	5
3	Trust bank	3	0	6	15	4	4	4	1	1
4	Orietnt Finance bank	4	+1	7	17	2	1	6	3	3
5	Invest Finance bank	5	-1	3	9	17	2	10	8	8

6	Ipak yoli bank	6	+1	15	1	12	10	8	2	7
7	Aloqa bank	7	-1	4	7	6	8	13	11	9
8	Azia alyans bank	8	+1	2	10	16	16	11	5	2
9	Ipoteka bank	9	-1	14	6	13	12	5	6	15
10	Uzpromstroy bank	10	0	16	14	8	11	1	7	6
11	Agro bank	11	+3	10	3	5	9	16	14	13
12	Micro credit bank	12	0	13	4	3	14	15	10	2
13	Turon bank	13	+3	9	11	11	6	14	15	14
14	Khalk bank	14	+3	5	8	9	17	17	13	11
15	Asaka bank	15	-2	12	13	10	13	3	17	10
16	Qishloq qurilish bank	16	-1	11	12	7	7	12	16	16
17	National bank of Uzbekistan	17	0	17	16	1	15	2	9	17

The share of deposits and loans from other banks and financial organizations in total liabilities was 4.2%, and the share of funds received from the Ministry of Finance was 5.5%. These indicators show that Kapitalbank is actively working with the population and business.

"Hamkorbank" retained its position and continues to hold the 2nd place in the overall rating. The Bank achieved high results in terms of affordability, asset quality and profitability. In particular, the volume of term deposits increased by 21.6% and amounted to 2.6 trillion soums. The number of legal entities that received loans per branch of the bank reached 424, the number of individuals - 4716 people. The ratio of total profit to assets amounted to 19.2% (the banking system - 10.5%). The share of problem loans as of September 1 decreased by 31.7% and amounted to 184.2 billion soums (banking system - 6%).

Trustbank closes the top three most active banks, maintaining its leadership in terms of capital adequacy, profitability and liquidity.

Two large banks showed rapid growth in this quarter, these are Agrobank and Turonbank. They improved their positions by three points each.

Among the largest state-owned banks, Halyk Bank fell 3 points to 14th in the overall rating, despite the fact that the bank continues to hold 5th place in financial intermediation since the beginning of the year. The main reasons were the relative deterioration in the quality of the bank's assets (17th place), management efficiency (17th place) and profitability (13th place).

Another bank with a state share, Aloka Bank, lost 1 point, dropping to 7th place in the overall rating. The main reason for this is the increase in the share of problem loans to 6.3% in the bank's portfolio.

The leaders in the overall rating of activity of 14 small banks of Uzbekistan in the III quarter of this year. became "Davrbank", "Ziraatbank" and "Universalbank" respectively.

Two foreign banks also improved their positions in the overall rating of small banks by one point each, these are Tenge Bank and KDB Uzbekistan. (Table 3)

### Rating of activity of small banks for the third quarter of 2021

№	Bank	Overall rating	Rating change	Rating on financial intermediation	Financial accessibility rating	Capital adequacy rating	Asset quality rating	Management quality rating	Rating by profitability	Liquidity rating
1	Davr Bank	1	0	8	1	10	1	3	4	11
2	Ziraat Bank	2	1	1	11	9	7	2	7	2
3	Universal bank	3	-1	1	4	12	3	9	11	5
4	Anor bank	4	0	1	5	6	2	10	8	9
5	Ravnak bank	5	0	1	2	11	9	7	5	12
6	Poytakht bank	6	0	9	9	1	5	5	3	6
7	Tenge bank	7	1	14	6	1	6	4	6	7
8	TBC bank	8	-1	10	3	1	4	14	10	3
9	Savdogar bank	9	0	1	10	14	11	11	12	10
10	KDB bank	10	1	10	13	7	8	1	13	1
11	Madad invest bank	11	-1	13	8	1	13	6	1	4
12	Uzagroeksport bank	12	0	10	7	1	14	8	2	8
13	Hi-Tech bank	13	0	1	14	8	12	13	9	14
14	Turkiston bank	14	0	1	12	13	10	12	14	13

Analyzing the criteria named by the respondents in the study "Monitoring of the retail market. Banks", conducted by ProfiOnlineResearch, as the main ones when choosing a credit institution, it can be noted that a significant influence on the choice of a particular bank and its competitiveness is provided by such factors as: the variety of the range of services that it provides to its customers (67% of respondents), second place confidently take the recommendations of friends and acquaintances of a potential client (61%); further, in order of importance, respondents named the presence of a large number of ATMs, Internet banking and the absence of queues at branches (48%, 47% and 39%, respectively). Only 5% of respondents noted that their opinion when choosing the services of a particular bank is influenced by advertising and other activities to promote the institution on the market.

To strengthen the competitive advantages of commercial banks in the retail services

market, it is possible to offer to expand their presence in the banking market, create all kinds of branches, expand the services provided, for example, factoring, trust operations, cash management services, discount brokerage services, investment banking services (underwriting).

In general, it can be concluded that the potential of the banking sector of Uzbekistan has not yet been exhausted, the need to improve and expand banking operations leads to the improvement of interbank competition, thereby predetermining the successful functioning of the domestic sector of the economy and the state as a whole.

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