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## **DIRECTIONS OF DEVELOPMENT OF THE COMPETITION MECHANISM IN THE INTERBANK MARKET**

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### **ABSTRACT**

The article describes the nature and functions of the competition mechanism between banks and financial institutions, the features of the organization of financial institutions' services. A scientific proposal and practical recommendations on improving competition in commercial banks of our republic have been developed.

### **KEYWORDS**

Competition, banking, financial institutions, financial technologies, financial institutions, risk, securities, universal bank.

### **INTRODUCTION**

In a situation where it is an important task to ensure food and energy security arising in the background of the ongoing complex pandemic and the consequences of the global economic crisis, various disturbances and conflicts, the entry of various institutions in the interbank market will increase competition in the

banking sector, and in front of banks, various causes the need to solve tasks immediately. The increase in the types of services in the financial sector is leading to changes in the structure of the banking sector. This requires creating a modern, transformed structure of banks, extensive use of global and advanced

information technologies. For this reason, in the "Development Strategy of New Uzbekistan for 2022-2026" [1] approved by the Decree of the President of the Republic of Uzbekistan dated January 28, 2022 No. PF- 60 the share of the private sector in assets is set to reach 60 percent. Modern universal banking requires not to be slow, bureaucratic, inefficient, not knowing one's work, not being able to get out of risky situations, without income and not being able to withstand competition, but it should reflect speed, strong specialists, the use of modern banking technologies, always achieving profit and tolerance to competition. requires. In world practice, the universalization of banks in developed countries is increasing rapidly, while in developing countries, this situation is being realized step by step. Universal banking mainly focuses on the following areas: information, risk, operations with securities and capital management. In addition, the development of activities leads to the expansion of new types of banking operations. In world practice today, the method of "innovative thinking" regarding the application of new information technologies in the banking system is widely promoted. "Innovative thinking" refers to the introduction of new strategic marketing services in the field of banking services and the extensive involvement of new banking technologies in banking operations. If the bank made 6 percent of the total costs of importing technologies in the service sector, now the cost of these technologies

is 25-30 percent in developed countries. This new service is a change in the service industry and innovations in the internal environment in attracting customers leads to the development of the competition mechanism in the interbank market.

## REVIEW OF LITERATURE ON THE SUBJECT

Based on the conclusions of scientists who have conducted research in this field, it is possible to analyze different approaches. In particular, the concept of competition is different, and it is formed on the basis of supply and demand. As the main factors determining the level of competition, demand and supply in the market were taken as the main criteria. Therefore, the concept of statistical equality is based on the optimal point of competition[2]. According to this theory, competition is a statistical determinant, and financial institutions participating in the market will not sell products at high prices and profit levels will not be as high as they predict. Against this, the Austrian school teachers argued that competition should be a factor that is determined on the basis of struggle. One of the founders of this school, Curno, was one of the first to justify the need for free competition in the market and the possibility of developing competition on this basis.

Competition is a concept that defines the situation in the market, in which the price in the market is freely determined and is almost equal to the production costs. In order to achieve a competitive market, it is

necessary to have a number of offers, in which the number of competitors in the market should not be taken into account at all, it is necessary to create a free entry and exit in the market [ 2]. Edgeworth, Jevonsom, Walrasom, Marshall and Clarke can be mentioned among the scientists who took a theoretical approach to competition. In the book "Risk, Uncertainty and Profit" published by them, it is mentioned that perfect interbank competition is the main anti-monopoly factor [3]. As we know, in the conditions of monopolistic competition, financial institutions establish their dominance in the market by controlling the price. There are different views on the basis of the statistical theory of oligopoly, and this theory makes it possible to change the structural structure of the market. Oligopoly theory presents the market structure, perfect competition, imperfect competition and monopoly. Competitions in this form are based on different concepts, and their correct interpretation in the market is important for enterprises and organizations. The core of competition is definitely the financial institutions participating in the market and their position in the market. The process of interbank competition is created on the basis of a certain mechanism, and its participants are considered as its important principle [4]. According to the author, the relationship between people plays the main role in the competition, but other scientists believe that everyone participates in the competition[5].

Economist in this field from the scientists of our republic T.I. Bobakulov[6] puts forward the following opinion as an important factor of interbank competition: "...in the current environment, where a healthy interbank competition environment has not been formed, the implementation of an open market operation by the Central Bank of our republic with one or two banks will create a favorable and uneven competitive environment for these banks" causes. Economist Sh.Z. Abdullaeva [7] emphasizes that "... in the conditions of fierce competition, one of the main directions of the activity of commercial banks is investment activity".

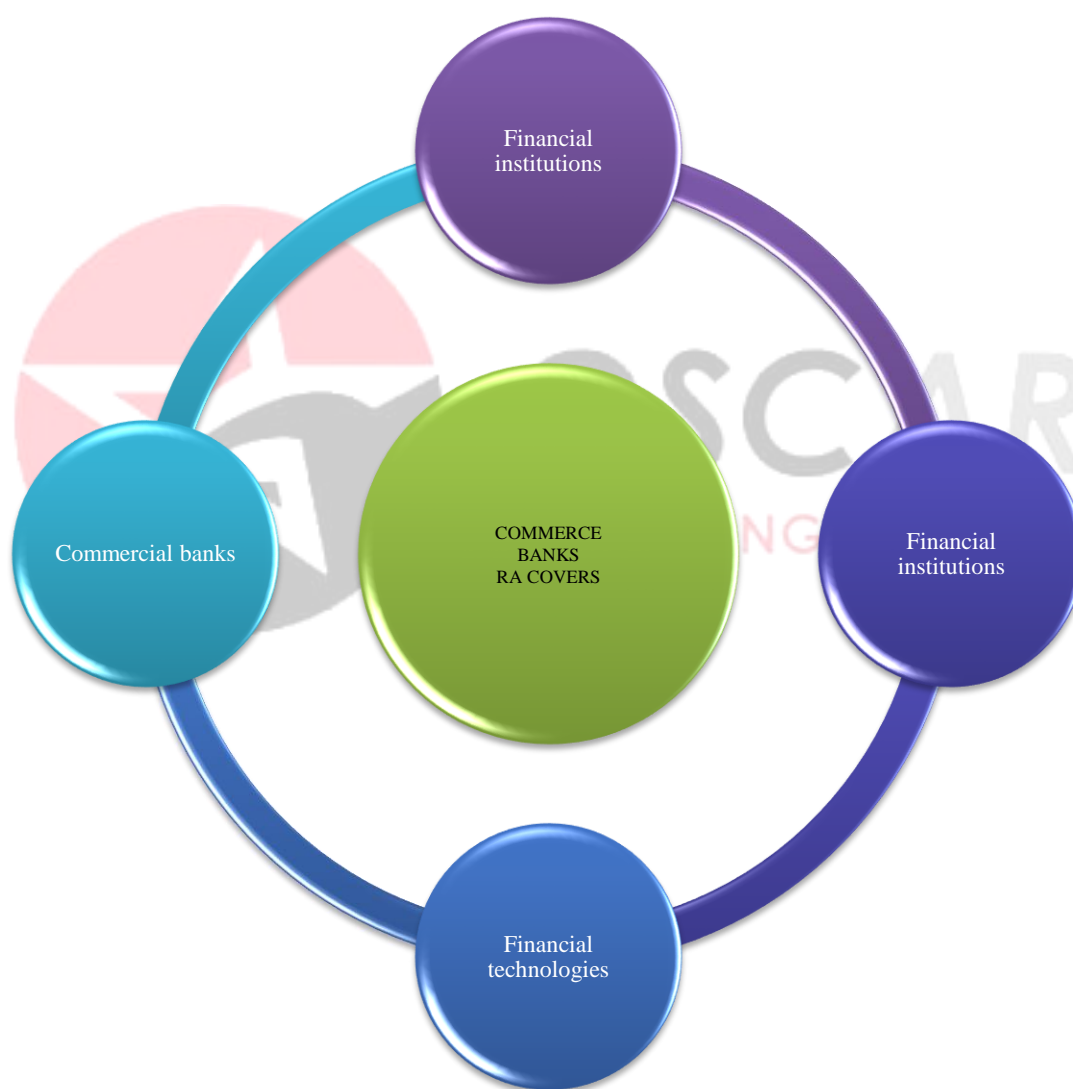
## RESEARCH METHODOLOGY

The purpose of the research is to develop the mechanism of competition between banks and financial institutions and to make scientific conclusions for the development of scientific and practical proposals and recommendations based on the results of the analysis of the practice of ensuring the entry of banks into the interbank market. As a theoretical and methodological basis of this article, general economic literature and scientific articles, can banks and financial institutions compete among economists? based on the analysis of their written and oral opinions, expert assessment, process monitoring, conclusions, suggestions and recommendations based on a systematic approach to economic events and processes.

In the process of studying the subject, banks and special approaches to systematization of information of financial institutions were used, that is, methods such as comparison, compilation of theoretical and practical materials.

## RESULT AND DISCUSSION

Companies, firms and large financial institutions that compete with banks in global practice can be described in general as follows:



### 1. Competitors of commercial banks in the interbank market [8]

As we know, the banks themselves, various financial institutions and large financial companies, that is, katomerats, were seen as competitors of commercial banks. In the following years, another important competing financial technology began to enter the banking market. This makes it necessary for banks to pay special attention to this area.

Acceleration of the process of integration in the world creates the basis for the development of various processes in the financial markets. Fundamental changes in the world economy are causing new products to enter the financial markets of all countries, increase the quality of services, and create new innovative products of information technology. This has led to the growth of fierce competition in the financial market of any country.

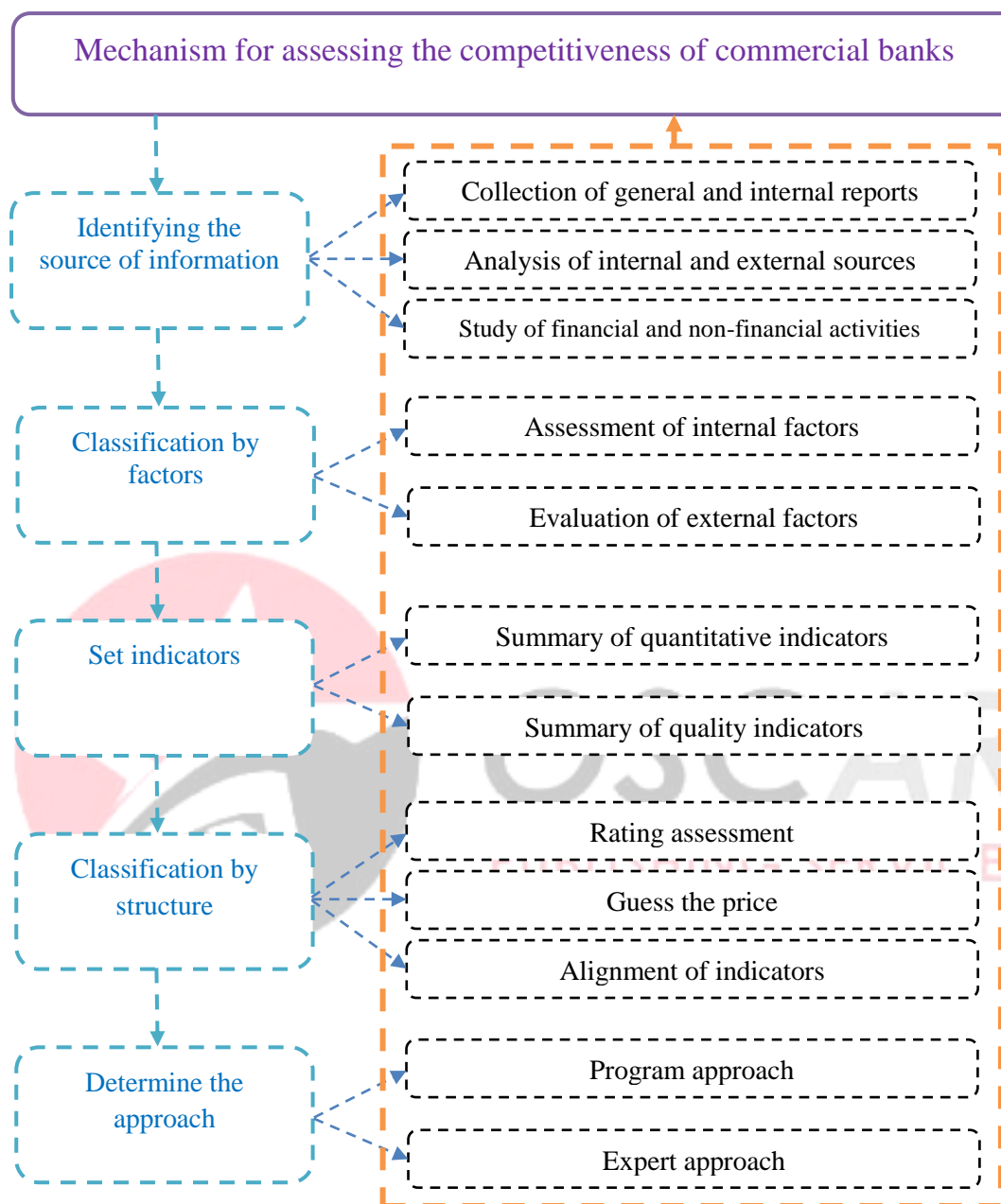
The creation of new innovative ideas by financial institutions or the introduction of large amounts of funds in this area has ensured the fierce competition in the technology market. The introduction of new innovative ideas in any field is an important resource for its development. Currently, the scale of expenses spent by financial institutions to create innovative ideas is increasing. In particular, the change from 2010

to 2015 changed from 54% to 59%. By 2023, this indicator is expected to reach 63%. [9]

The amount of income from the created innovative ideas decreased by 2.5% in 2017 compared to 2016, while the growth rate in 2018 compared to 2017 was 11.4%. In 2020, it can be observed that the income from the innovative ideas presented has increased.

Therefore, the increase in funds spent on innovative ideas will lead to increased competition in all areas. In the banking market, competition takes place not only among banks, but also between different financial institutions.

Therefore, it is not important to take banks' affiliation as a basis for evaluating competition in the banking market. In this case, as a result of determining the source of information and approach, classification by factors and structure, studying the environment of inter-bank competition based on directions such as setting specific indicators, and timely and step-by-step performance of relevant tasks within each direction, a mechanism for effective assessment of competition between commercial banks will be created. We can consider these processes by reducing them to a single system through the following picture.



**Figure 2. Mechanism for evaluating the competitiveness of commercial banks[8]**

As you can see from the picture above it will be possible to increase the competitiveness of banks in the interbank market by creating a mechanism for assessing the competitiveness of commercial banks.

the strategic goal of every bank should be to develop skills to compete with the financial institutions entering the banking market of our republic. Competition between financial institutions and banks in the world banking market is gradually developing.



This means that it is important for each country to notice the changes in the banking market in time, to apply new innovative technologies to the banking sector.

### CONCLUSION

In general, financial institutions are considered an innovative component of modern international financial markets and have a high potential for development.

Therefore, the development of skills to compete with financial institutions in the banking market of our republic should be a strategic goal of every bank. Competitors of banks are developing in the world banking market. This means that it is important for every country to notice the changes in the banking market in time, to apply new innovative technologies to the banking sector.

Studying the latest trends in the world will not be without benefits. Because, in the era of rapid exchange of tangible and intangible assets on the balance sheets of banks in the world, it will be appropriate for us not to focus only on the export of products, but to study know-how and technologies in sync with the times, and at the same time, to bring the use of the digital economy to a new level.

Also, it is necessary to actively use financial technologies to improve the quality and popularity of financial services provided by commercial banks. For example, with the help of such technologies, it is

possible to exchange credit information, establish cooperation with non-bank institutions and financial platforms within the framework of open banking (open banking).

- the world financial market as a direct competitor in the banking market;
- it is necessary to develop a system of necessary measures for the use of digital technologies in the banking market;
- new innovative types of banking services, digital payment, blockchain, remote service, further improvement of the use of internet banking;
- introduction of modern banking practices and criteria, including transition of modern IT systems to digital banking and preservation of previously introduced types of services;
- identification and use of plastic cards of bank issuers in the unified payment system;
- achieving complete liberalization of the banking sector;
- fiscalization of payments, implementation of integration of relevant services into digital platforms of banks;

Therefore, the development of skills to compete with new financial institutions entering the banking market of our republic should be a strategic goal of every bank. This means that it is important for each country to notice the changes in the banking market in time, to apply new innovative technologies to the banking sector.

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