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THE WAYS OF ASSESSING COMPETITION BETWEEN COMMERCIAL BANKS

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ABSTRACT

The article describes the essence and functions of the assessment of competition between commercial banks, the features of the organization of banking services in the interbank market. A scientific proposal and practical recommendations on improving competition in commercial banks of our republic have been developed

KEYWORDS

Competition, banking, banking market, pandemic, Herfindahl-Hirschman, credit, concentration.

INTRODUCTION

Ensuring food and energy security is an important task due to the ongoing complex pandemic and the consequences of the global economic crisis, various disturbances and conflicts in the world, the development of the banking system, the wide use of information technologies for bringing banking services to the market, the introduction of the latest technical tools and advanced banking technologies, as well as the assessment of competition between banks are important issues. Therefore, it is necessary to

introduce more improved models of competition between banks. 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 It is set to reach 60 percent. Based on this, it should be noted that the reduction of commercial banks with a high share of the state leads to further improvement of competition in the interbank market. However, the measures used to ensure interbank competition and put an end to

monopolistic activities of banks differ significantly from one another in the countries.

Review of literature on the subject

Different approaches can be analyzed based on the conclusions of scientists who have conducted research in this field. In particular, the concept of competition is different, it is formed on the basis of supply and demand. Supply and demand in the market are taken as the main criteria and the main factors determining the level of competition. 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. In contrast, Austrian schoolteachers argued that competition should be a factor determined on the basis of struggle. One of the founders of this school, Cournot, was one of the first to substantiate the need for free competition in the market and the development of competition on this basis.

Competition is a concept that defines a market situation in which the price on the market is determined freely and is practically equal to production costs. To achieve a competitive market, it is necessary to have a number of proposals, which should not take into account the number of competitors in the market at all; it is necessary to create free entry and exit to the market [2]. Among the scholars who have taken a theoretical approach to competition are

Edgeworth, Jevonsom, Walrasom, Marshall and Clark. In their published work, "Risk, Uncertainty and Profit," it is noted that perfect interbank competition is the main factor in the fight against monopoly[3]. As we know, under 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".

ANALYSIS AND RESULTS

The development of competition in banking activity was recognized as a high indicator. Interbank competition depends on many factors, it is fundamentally different from the formation of competition in other markets and requires a careful approach.

The first form of assessment of competition between banks is an empirical approach called "Structure-Conduct-Performance (SCP)".

This approach is considered as a paradigm for assessing the level of competition of banks in the market. In this case, it is based on the conclusion that the high concentration in the market ensures the high level of competition of the banks and consequently increases their income (increases the Lerner index). Therefore, in determining competition between banks, high market concentration is considered to be sufficient. As a justification of the fact that this situation is true, scientists have studied it in their research entitled "Bank Concentration and Performance". In their opinion, they showed that the competition is not related to the high concentration of the market position, but to the high profitability of the banks.

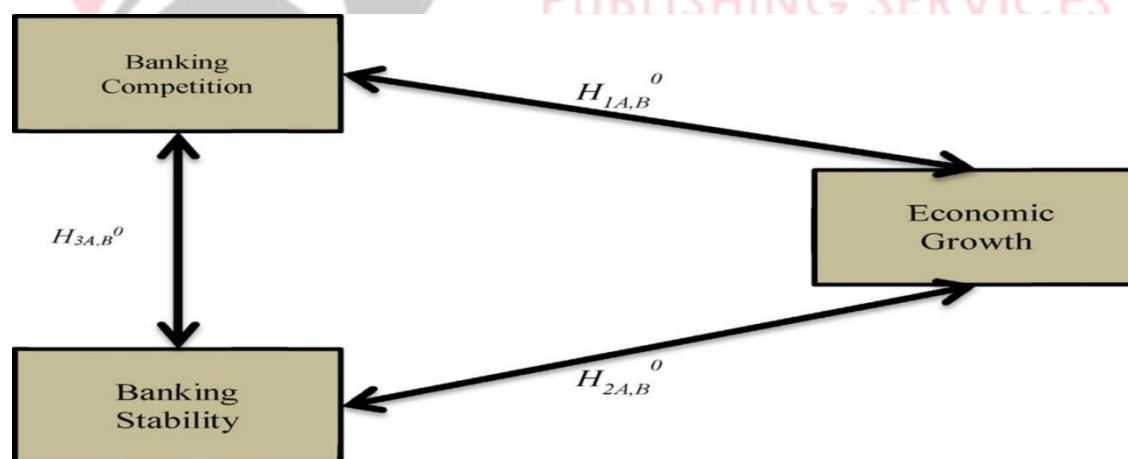


Figure 1. Algorithm of the relationship between competition among banks, stability of banks and economic growth.[8]

The models mentioned above show the need to assess the competition of banks in the market, taking into account certain factors. Today, the development of banks' activities in the market does not allow us to assess their position in the market based on some factors..

In world practice, the Herfindahl-Hirschman median value index is used to monitor competitive advantage in the market. An overview of this index is as follows:

$$H = S_1^2 + S_2^2 + \dots + S_n^2$$

$S_1^2, S_2^2, \dots, S_n^2$ these are firms operating in the market (here, organizations with a high market share of the analyzed indicators are taken in the first place). According to scientists, competition in the market is strong when $X < 1000$, moderate competition between $1000 < X < 1800$ and $1800 < X$ indicates that the market is dominated by monopolistic process.

Let's analyze B5 commercial banks of our republic based on their credit indicators and market share. The table below shows the share of B5 banks in total loans.

Table 1

Share of B5 commercial banks in total loans[9]

Commercial banks	2015 y.	2016 y.	2017y.	2018 y.	2019 y.	2020 y.
Uz industrial construction bank	14,9	10,7	8,0	8,7	6,1	22,8
Agrobank	16,9	13,7	11,8	14,8	13,6	11,7
National bank	25,2	20,8	17,4	14,9	23,1	15,5
Asaka bank	11,3	9,4	9,2	10,4	14,9	9,1
Ipoteka bank	11,3	9,5	10,3	9,1	10,8	9,8
Total	54,3	43,5	39,3	57,9	68,5	68,9

The share of the National Bank is high compared to other banks, it was 25.2% in 2015, and it can be observed that it will decrease in the following years. The occurrence of this situation can be attributed to the strengthening of the

position of other banks in the market. In particular, it can be observed that the share of Uz industrial construction bank in 2020 increased by 3.5% compared to 2019. This is estimated by a sharp increase in the volume of loans to the construction sector of the bank.

Based on the obtained analysis, we will analyze using the Kherfindal-Hirshman index formula to evaluate the level of competition based on the indicators of B5 banks of our republic. Based on the above formula, we calculate the HHI index for each year. In particular, we find the share of B5 banks in loans in 2015 as follows:

$$H = S_1^2 + S_2^2 + \dots + S_n^2 = 14.9 * 14.9 + 16.9 * 16.9 + 25.2 * 25.2 + 11.3 * 11.3 + 11.3 * 11.3 = 1396$$

Similarly, we calculate for the remaining years. As a result, we get the following table.

Index indicator	2015 y.	2016 y.	2017 y.	2018y.	2019 y.	2020 y.
As part of general loans						
HHI	1396,0	918,2	695,4	706,9	1093,8	1076,9
Market condition	Average competition	Strong competition	Strong competition	Strong competition	Average competition	Average competition

based on the obtained results, the market situation of B5 banks of our republic according to 5 indicators was as follows: - in terms of the composition of total loans, the market concentration is high, and in 2019, 2020, the competition of banks has maintained an average condition;

Conclusion

In conclusion, It is important for banks to complete the following in order to ensure their superiority in the competitive market:

- increasing adaptability and effectiveness in the market;

- automation of the banking sector;
- use of new computer technologies, creation of new innovative services and service improvement;
- further improvement of the remote service system, increasing the possibility of internet banking;
- using new information and communication technologies based on the introduction of electronic marketing;
- a sharp reduction in the number of banks with a state share.

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