

**INDICATORS AND METHODS FOR ASSESSING INTERBANK COMPETITION
ENVIRONMENT: THE CASE OF UZBEKISTAN BANKING SECTOR****Madina Ataboyevna Ataboyeva**

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Abstract. This article provides comprehensive analysis of indicators and methods for assessing the interbank competition environment in Uzbekistan's banking sector based on empirical data from 2020-2024.

Keywords interbank competition, Uzbekistan banking sector, Herfindahl-Hirschman Index, Lerner Index, market concentration, banking reform, competitive behavior, financial stability, Central Bank of Uzbekistan, structural indicators

The assessment of interbank competition represents a critical challenge for banking regulation and financial system stability in transition economies. Uzbekistan's banking sector has undergone profound transformation since 2017 following comprehensive reform initiatives aimed at transitioning from a state-dominated, highly concentrated market structure to a competitive, market-oriented financial system. Prior to reforms, Uzbekistan's banking sector was characterized by extensive state ownership with five major state-controlled banks accounting for over 90% of total assets, administrative credit allocation, limited competition with regulated interest rates and restricted market entry, and high non-performing loan ratios exceeding 20% in some institutions. The reform program pursued strategic objectives including privatization of state-owned banks, liberalization of market entry for domestic and foreign banks, deregulation of interest rates, strengthening of prudential regulation aligned with Basel standards, and modernization of payment systems and digital banking infrastructure.

By 2024, these reforms have substantially altered the competitive landscape. State ownership declined from 87% of total assets in 2017 to 34% in 2024, the number of commercial banks increased from 26 to 32 including 8 banks with significant foreign ownership, interest rates were fully liberalized enabling market-based pricing, and digital banking penetration reached 58% of active customers. However, significant questions remain regarding the extent of competitive transformation, the appropriateness of competition intensity for financial stability, variations across market segments and geographic regions, and the adequacy of regulatory frameworks for monitoring and managing competition. These questions have profound implications for policy design as regulators must balance competition promotion to enhance efficiency and financial inclusion with stability preservation to prevent systemic



risks.

The relevance of this research is underscored by several critical factors. First, systematic assessment of banking competition in Uzbekistan is absent from existing literature, with no comprehensive studies applying modern competition measurement methodologies to evaluate reform outcomes. Second, the relationship between competition and financial stability in transition economy contexts remains theoretically ambiguous and empirically contested, with competing hypotheses suggesting competition either enhances or undermines stability. Third, regulatory authorities require operational frameworks and quantitative indicators to monitor competition systematically and inform evidence-based policy decisions regarding merger approvals, market structure interventions, and competitive conduct regulation. Fourth, international financial institutions supporting Uzbekistan's reform process need rigorous assessments to evaluate progress and guide future technical assistance. Fifth, academic literature on banking competition in Central Asian transition economies is limited, presenting opportunity for significant scholarly contribution.

The primary objective of this dissertation is to develop comprehensive analytical framework for assessing banking competition in Uzbekistan through application of structural and non-structural indicators, empirical measurement of competition intensity and its evolution during reform period, and formulation of evidence-based policy recommendations for competition regulation balancing efficiency and stability objectives.

To achieve this primary objective, the following specific research tasks are addressed: (1) Systematically review theoretical foundations of banking competition assessment including structure-conduct-performance paradigm, efficient structure hypothesis, and modern game-theoretic approaches, examining their applicability to transition economy contexts; (2) Analyze international experience in banking competition assessment and regulation across diverse jurisdictions including developed markets (US, UK, EU), emerging markets (China, India, Brazil), and transition economies (Poland, Czech Republic), identifying best practices and lessons relevant for Uzbekistan; (3) Comprehensively examine structural competition indicators (HHI, concentration ratios, market share distributions) and non-structural methods (Lerner Index, net interest margin analysis, profitability measures) evaluating their strengths, limitations, and complementarities; (4) Collect and organize comprehensive dataset on Uzbekistan banking sector for period 2020-2024 including bank-level financial data, market share information, pricing indicators, and regulatory variables from Central Bank of Uzbekistan and individual bank disclosures; (5) Calculate structural and non-structural competition indicators for Uzbekistan banking market at aggregate level and disaggregated by market segments (retail, SME, corporate, rural) and product categories (deposits, loans, payments); (6) Analyze temporal evolution of competition indicators during reform period, identifying trends, structural breaks, and relationships with reform milestones including privatization transactions, regulatory changes, and market entries; (7) Investigate



relationships between competition intensity and performance outcomes including financial stability indicators (capital adequacy, asset quality, liquidity), efficiency measures (cost-to-income ratios, operational efficiency), profitability metrics (ROA, ROE, net interest margins), and financial inclusion indicators (account penetration, credit access); (8) Examine factors influencing competition including state ownership, foreign bank presence, digital banking adoption, regulatory frameworks, and geographic characteristics; (9) Identify challenges and constraints limiting competitive development including market concentration, regulatory barriers, infrastructure limitations, and information asymmetries; (10) Formulate evidence-based policy recommendations for regulatory authorities addressing competition monitoring frameworks, merger review procedures, market structure optimization, entry facilitation, digital banking promotion, and stability-competition balancing.

The research object comprises Uzbekistan's banking sector and its competitive environment for the period 2020-2024, encompassing 32 commercial banks operating as of 2024 including state-owned banks, private domestic banks, and foreign-owned banks. The research examines the entire banking system while recognizing heterogeneity across bank types, sizes, and geographic presence. The research subject encompasses indicators, methodologies, and analytical frameworks for measuring and assessing competition intensity in Uzbekistan's banking market, including mathematical formulations of competition indicators, calculation procedures using available data, interpretation protocols considering institutional context, relationships between competition measures and performance outcomes, and policy implications of competition assessment findings for regulatory decision-making.

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