

THEORETICAL FOUNDATIONS OF REGULATION OF COMMERCIAL BANKS

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Abstract

the article discusses the theoretical basis for regulating the activities of commercial banks in the financial system. An analysis of the role of commercial banks in the economy, tasks and significant aspects of the financial system from the point of view of researchers is given. In addition, the regulatory mechanisms used by the government to ensure financial stability and protect the interests of depositors are discussed, as well as monetary policy issues related to the activities of commercial banks, such as liquidity and interest rate management.

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Introduction

Commercial banks occupy a key place in the financial system of the state, ensuring the movement of capital, lending to legal entities and individuals, as well as providing services for their financial transactions. The efficiency of commercial banks is closely related to the economic development and stability of the state. However, to protect the interests of consumers of commercial banking services and ensure financial stability at the national level, effective mechanisms of government regulation and control are required. Based on the above factors, it can be noted that the study of the theoretical foundations of regulation of commercial banks is one of the pressing issues of socio-economic life. These factors concern not only the role and functions of banks in the economy, but also the mechanisms and tools used by the state to ensure their stable operation.

Our research shows that currently there is a high level of government intervention in the banking system of the Republic of Uzbekistan, a high share of state banks in the share of operating banks, insufficient quality of management and risk management in banks, systemic problems that hinder the economic renewal of banks and the development of society. Additional measures should be taken to expand the activities of commercial banks in the country, improve the quality of services, and attract international practice to the activities of banks.

Methods

During the study, we analyzed the scientific literature, laws, regulations and historical materials related to the regulation of commercial banks. We have studied the current legislation and regulations

governing the activities of commercial banks in different countries. We analyzed various theoretical concepts and models describing the role of commercial banks in the economy, their functions, their relationships with other financial institutions and their impact on financial stability. We also made extensive use of empirical research, statistical observation, aggregation, grouping and data analysis methods. The use of a combination of these methods made it possible to conduct a comprehensive and in-depth study of the theoretical foundations of regulation of commercial banks, identify the main trends and problems in this regard and also give recommendations for improving the regulation of commercial banks regulation and control of banking activities.

Results and discussion

For each country, the stability of the financial and credit system is the most important condition for economic development. The banking system is one of the most important and irreplaceable areas of a market economy. The development of banks is closely related to the activities of manufacturers and service providers in the country's economy. Commercial banks significantly increase the overall efficiency of production and contribute to the growth of social productivity by carrying out calculations of monetary aggregates in the economy, lending to the economy, and mediating the redistribution of capital.

Commercial banks carry out their activities in accordance with the monetary policy of the state, regulate the movement of cash flows, influence the speed of their circulation, issue, total mass, investments in the economy, including the amount of cash in circulation.

The main directions of reforming the banking sector of the Republic of Uzbekistan are:

- increasing 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 government resources, modernizing banking services, creating an effective infrastructure and automating the activities of banks, as well as the gradual abolition of non-core functions of banks;
- ensuring the financial stability of the banking system by improving the quality of the loan portfolio and risk management, maintaining moderate growth in lending volumes, pursuing a balanced macroeconomic policy, improving corporate governance and attracting managers with international practical experience, introducing technological solutions for assessing financial risks;
- reduction of 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 appropriate experience and knowledge, as well as parallel reform of commercial banks and enterprises with a state share;
- increasing the accessibility and quality of financial services through the concentration of government presence and taking targeted measures on underserved and vulnerable segments, the widespread introduction of remote services for the population and small businesses, the development of a network of low-cost service points, as well as the creation of favorable conditions for the formation and development of non-bank credit institutions as a mutually complementary part of the unified financial system of the republic¹.

Based on our research, to study the theoretical foundations of regulating the activities of commercial banks, it is advisable to use the following methods and resources:

- study of textbooks, teaching aids and research works on economics, finance and banking on the regulation of commercial banks;

¹ Указ Президента Республики Узбекистан “О стратегии реформирования банковской системы республики узбекистан на 2020 — 2025 годы”, от 12.05.2020 г. № УП-5992.

- expanding the use of Coursera, edX, Udemy and other similar online platforms for finance and banking in order to improve financial literacy of the population and employees of commercial banks;
- organizing conferences, seminars and webinars on improving the activities of banks and using international experience;
- analysis of data on the activities of commercial banks, study of legislation and current regulations;
- providing individuals and legal entities with educational materials from the Central Bank and other regulatory bodies containing information on the rules governing the banking sector.

To fully and deeply understand the theoretical basis of commercial bank regulation, it is necessary to use these methods and resources in combination.

Taking into account the above, a strategy for reforming the banking system of the Republic of Uzbekistan was developed (Table 1).

Table 1. Target indicators for the implementation of the strategy for reforming the banking system of the Republic of Uzbekistan for 2020-2025

№	Indicator name	Current status	Target:	
			for 2023	for 2025
1.	Share of assets of private banks (without the participation of the state share) in the total assets of the banking sector	15 %	35 — 40 %	60 %
2.	Share of banks' liabilities to the private sector in total liabilities	28 %	60 %	70 %
3.	Attracting strategic foreign investors with appropriate experience, knowledge and reputation	-	3	3
4.	Ratio of deposits and liabilities of banks	41 %	45 — 50 %	50 — 60 %
5.	Share of assets of non-bank credit institutions in the total assets of credit institutions	0,35 %	1 — 1,5 %	4 %
6.	Share of liabilities in foreign currency in total liabilities	58 %	45 — 50 %	40 — 45 %
7.	Ratio of bank assets to GDP	53 %	54-55 %	more than 55%
8.	Ratio of bank deposits to GDP	18 %	22 — 24 %	25 — 27 %

Achieving these goals will strengthen the activities of the country's commercial banks. However, further advancement of the transformation of commercial banks, which should be completed this year, will lead to an extension of the period for achieving these goals.

One of the famous scientists who conducted research on the theoretical foundations of regulation of commercial banks, Douglas Diamond, is known for his work on the Diamond-Dybvig model, which describes the role of the government in ensuring the stability of the banking system. Also, a great contribution to the theoretical understanding of the principles and mechanisms of regulation of commercial banks was made by the Indian economist Raghuram Rajan, the French economist Jean-Charles Roche, Professor of Finance and Economics at Stanford University Anat R. Admati, the British economist Paul Tucker and many other scientists. T. Bobokulov, D. Yuldashev, B. Yusupov, A. Sultanov and B. Tursunov are among the scientists who contributed to the development of scientific knowledge in the field of regulation of commercial banks in the economy of the Republic of

Uzbekistan. Much research remains to be done in this regard.

Suggestion and conclusion

To accelerate the development of financial markets, increase competition and introduce new technologies into the banking system, adapt to the changing conditions and risks faced by modern commercial banks and financial markets, further research and development of mechanisms for improving regulatory practice are necessary. According to our research on the theoretical foundations of regulation of commercial banks, it is necessary to study international experience in the field of banking supervision, regulation, development of more effective mechanisms for cooperation between financial institutions and governing bodies, as well as financial regulation in the context of regulation of commercial banks, an in-depth analysis of the integration and protection of financial consumers is important services.

In conclusion, it can be noted that an in-depth study of the theoretical foundations of regulation of commercial banks is of great importance in ensuring financial stability and economic development in the country. Understanding the basic principles and mechanisms for regulating banking activities by users of the financial market is an important step towards ensuring the effective functioning of the financial system and protecting the interests of all its participants.

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