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THE IMPACT OF DIGITAL TECHNOLOGY DEVELOPMENT ON ECONOMIC STABILITY UNDER COMMERCIAL BANK COMPETITION AND DIRECTIONS FOR ITS IMPROVEMENT

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Abstract. The article examines how digital technologies affect economic stability under competition among commercial banks. Digitalization can lower banks’ costs, widen access to financial services and improve risk management. It also brings cyber risk, dependence on a small number of technology providers and competitive barriers for smaller banks. The article closes with proposals aimed at preserving the stability of the banking system.

Keywords: commercial banks, digital technologies, bank competition, economic stability, fintech, cybersecurity, financial inclusion.

Introduction.

Mobile apps, online lending, remote identification, payment systems and services based on artificial intelligence have changed how customers deal with their banks. In recent years Uzbekistan has been reforming its banking and financial system: the state share is being reduced, private and foreign capital is being attracted, and digitalization is being accelerated under programs such as “Digital Uzbekistan.”

As competition intensifies, banks are pushed to improve service quality, launch new products and cut costs. Digitalization has its own risks, however: cyberattacks, system outages, and the concentration of the market in the hands of a few large players. For this reason, studying the link between digital development and economic stability is necessary for setting banking policy.

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Aim of the research: to assess the impact of digital technologies on economic stability under competition among commercial banks and to develop directions for improving it.

Research objectives:

- ✓ to outline the theoretical foundations of bank competition and digitalization;
- ✓ to analyze the state of competition and digitalization in Uzbekistan's banking sector;
- ✓ to identify the channels through which digital technologies affect bank stability;
- ✓ to define the problems and propose measures for improvement.

Object of the research: commercial banks of the Republic of Uzbekistan.

Subject of the research: the economic relations among digital technologies, competition and economic stability.

Literature review and research methodology.

Two views exist in the theory of bank competition. According to the first (competition-fragility), stronger competition reduces banks' profit margins and makes them more inclined to take risks. The second (competition-stability) holds that high interest rates reduce borrowers' ability to repay, so competition can improve loan quality. Digitalization adds a new factor to this debate: technology can lower costs and offset the fall in margins, but it also introduces new technological risks.

Fintech research shows that digital services widen financial inclusion, reduce transaction costs and lower barriers to market entry. International financial organizations, for their part, name cybersecurity and dependence on third-party technology providers as serious threats to financial stability.

The study used comparative and systemic analysis, grouping of statistical data, time-series analysis, logical generalization and expert assessment. The data sources are reports of the Central Bank of the Republic of Uzbekistan, data of the Statistics Agency, annual reports of commercial banks and publications of international financial institutions.

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For a long time, large state-owned banks dominated Uzbekistan's banking system. During the reforms the share of private banks grew, foreign investors were attracted, and the privatization of several state banks began. New digital players entered the market: payment systems such as Click and Payme and digital banks became active, which changed the competitive environment.

Competition mainly takes place in four areas:

- ✓ *Service quality and speed:* shorter online lending and account-opening procedures.
- ✓ *Price competition:* commissions and interest rates.
- ✓ *Product differentiation:* installment payments, co-branded cards, mobile wallets.
- ✓ *Customer experience:* app usability, 24/7 service, personalized offers.

Digitalization in commercial banks is under way in several directions:

- ✓ *Remote services:* opening accounts, transfers, utility payments, online deposits and microloans through mobile and internet banking.
- ✓ *Payment infrastructure:* QR-code payments, instant payment systems, and the integration of cards and mobile wallets.
- ✓ *Scoring and data analytics:* automating credit decisions based on algorithms and big data.
- ✓ *Artificial intelligence:* chatbots, fraud detection systems, prediction of customer behavior.
- ✓ *Open banking and partnership:* exchange of services between banks and fintech companies through APIs.

As a result, banks' costs fall, service no longer depends on where branches are located, and banking becomes easier to use for rural areas and young customers.

Positive effects:

- ✓ *Efficiency:* lower operating costs and an improved cost-to-income ratio.
- ✓ *Risk management:* scoring and monitoring systems help reduce the share of problem loans.

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✓ *Financial inclusion:* wider coverage of banking services strengthens the savings and lending base.

✓ *Transparency and oversight:* electronic reporting and automated monitoring give regulators faster supervision.

✓ *Economic activity:* fast payments and financing for business speed up the circulation of working capital.

Risk factors:

✓ *Cybersecurity:* fraud, data leaks and system outages damage trust in banks.

✓ *Technological dependence:* excessive reliance on a few providers or one infrastructure creates systemic risk.

✓ *Digital inequality:* if small banks with limited technological resources are pushed out of the market, concentration may rise.

✓ *Aggressive competition:* fast and easy lending can weaken quality control and increase the debt burden.

✓ *Shortage of qualified staff:* demand for IT and risk-analytics specialists exceeds supply.

Digitalization therefore both supports stability and creates risk. The outcome depends on a bank's technological capacity, the quality of supervision and its risk culture.

In South Korea, digital banks were brought to market through regulatory sandboxes. In Kazakhstan, mobile banking and payment ecosystems are strongly developed. Turkey has introduced a national instant payment system. These cases show that new technologies give good results when they are introduced together with oversight. Test regimes, cybersecurity standards and data protection requirements form the basis for this.

The following proposals were developed on the basis of the research:

✓ Introduce a single minimum information security standard for banks, conduct regular audits and set up an incident reporting system.

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✓ Test new fintech products in a regulatory sandbox before rolling them out widely.

✓ Develop credit bureau and open API standards so that small banks have equal opportunities.

✓ Organize training programs for the public and entrepreneurs on protection against fraud and use of digital services.

✓ Train specialists in IT, data analytics and risk through cooperation between banks and universities.

✓ Monitor market concentration and lower barriers to entry for digital platforms.

✓ Include cyberattack and system outage scenarios in stress tests.

Conclusion.

Competition among banks is the main reason for adopting digital technologies, and this process has a positive effect on economic stability by raising efficiency, widening financial inclusion and improving risk management. However, cyber risks, technological dependence and digital inequality threaten stability. Digitalization should therefore go hand in hand with regulation, information security and staff training. The proposed directions aim to secure both the competitiveness and the stability of the banking system.

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