

## Evaluation of Efficiency of Commercial Banks

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### Abstract

*In this article, the theoretical, methodological and practical problems related to the assessment of the efficiency of commercial banks.*

**Keywords:** *efficiency, bank, bank mission, bank activity efficiency, evaluation of bank activity efficiency.*

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### 1. Introduction.

In recent years, great attention has been paid to the problems of ensuring the efficiency of the banking system. Despite the fact that the issues of ensuring the efficiency of banking activity have been expressed in the scientific research of many foreign and national scientists, in the conferences held at the world and regional level, in the reports and forecasts published by various international organizations and auditing companies, this By the way, a single approach and methodology has not been developed to explain and solve most of the problems in the field. In particular, EY (Global banking Outlook 2018. Becoming an innovation-based strategy[11] and Deloitte Development LLC. (Banking Outlook 2018. Acceleration of transformation)[12] on October 17-18, experts of international auditing companies came to the conclusion that it is appropriate to evaluate the effectiveness of banking activity based on the level of organization of banking activities based on innovative digital technologies. In 2017, at a conference held in Amsterdam with the participation of representatives of Europe, including Bankia, BNP Paribas, Danske Bank, the European Commission, the European Banking Federation, HSBC, Mone You, Nordea, RBS, Société Générale , risk management in ensuring the effectiveness of banking activities and criteria for regulating banking activities play a key role [13].

The analysis of the above and other scientific and practical sources shows that there is no universally recognized interpretation, norm and criteria of the concept of "efficiency". This concept is one of the important topics of scientific discussions of scientists conducting research in various fields.

It can be considered that one of the most important theoretical problems within the scope of the science of economic theory is to reveal the universal economic nature of the concept of "efficiency" and to determine its connection with objective economic laws. According to some economists, productivity is an objective economic category that has its own qualitative and quantitative characteristics within the framework of economic laws. It (economic category) reflects the level of social labor and capital use aimed at the socio-economic sphere. But here it must be admitted that this interpretation was not accepted without words by all scholars.

## 2. Methodology

Most scientific sources acknowledge that the concept of "efficiency" was first used in economic literature. This is explained by the use of this term in the scientific works of V. Petty, F. Keen, D. Ricardo, K. Marx and others, who are considered the founders of classical political economy. However, the term "efficiency" has been interpreted differently by them to describe economic and social conditions and processes. In particular, the concept of "efficiency" was used by V. Petty and F. Kene not as a separate economic category, but to evaluate "efficiency" or state activity and its ability to activate economic processes [3].

In modern economic science (from the 1950s to the present day), the category of "efficiency" was considered primarily within the framework of management and organization theory. This feature not only led to different interpretations of the concept of "efficiency", but also the formation of different approaches to defining its criteria. At the same time, it is necessary to recognize that the main elements included in the economic category of "efficiency" by classical economists (economic, social, connection with the external environment) are expressed in the preferences of the above-mentioned schools of management. In our opinion, it is important to note that the interpretations, norms and criteria proposed by them do not deny the basic nature of this economic category, on the contrary, they are the result of research conducted in the direction of its further development. In addition, it is assumed that the interpretations presented in the scientific research works carried out within the framework of general economic sciences (economic theory, macro and microeconomics, etc.) are a kind of "modernization" of the concepts developed by the analyzed schools. Considering one or another economic conditions, we will not dwell on them.

The above technical terms and their interpretation have taken into account only purely economic relations at the micro level. This, on the one hand, allows to expand the possibilities of identifying problems that should be the focus of attention in ensuring the economic efficiency of economic entities. Taking into account the fact that any economic activity simultaneously causes negative or positive changes in the external environment, the tacit acceptance of these interpretations, in our opinion, causes many problems at the global, regional and micro levels. It is enough to recall the factors that caused the global economic recession that began in 2007.

I.Q.Rajabov in his scientific work: "The concept of efficiency should be understood as an economic indicator reflecting the final results of the production process. The essence of economic efficiency is expressed not only by arithmetic numbers between production results and costs, but also by production efficiency. relations of production, distribution and exchange related to reducing the amount of costs to achieve useful results. Production efficiency is not only an arithmetic ratio between costs and results, but also an economic term that reflects production relations [6].

The analysis of the above-mentioned sources (at this point it must be admitted that the volume of scientific works devoted to efficiency issues is quite large and it is practically impossible to consider all of them within the scope of one work) indicates that the scientists of our country included in the category of "efficiency", paid attention. We will not dwell on this issue, as their achievements and shortcomings are reflected in the opinions and comments noted in the first part of the work.

**Practical features of the matter.** In order to reveal the role and importance of the category of "efficiency" in practical banking, we think it is necessary to analyze the nature of the organization known as a bank. According to the Law of the Republic of Uzbekistan "On Banks and Banking Activities": "A bank is a commercial organization, a legal entity, which performs the following types of activities that are considered banking activities: accepting deposits from legal entities and

individuals and receiving funds use for risky lending or investment; making payments". According to the legislation of the Russian Federation, "The Bank is a credit organization and has the exclusive right to carry out the following banking operations: attracting funds of individuals and legal entities to deposits; depositing these funds in his name and address. Opening and maintaining bank accounts of individuals and legal entities at their own expense according to repayment capacity, solvency and maturity [2].

In the Federal Law on the Activities of Organizations, the term "credit institution" is introduced without the use of the term "bank" and in paragraph 1 of the law, "Credit organizations are institutions that perform banking activities or perform commercial activities. costs according to their size. Banking activities include:

1. Openly attracting funds from other persons on the condition of deposits or other payments (deposit operations), except when the applicant is presented with a debt obligation with a debt certificate or warrant;

1. Transactions specified in Section 1, Clause 1, Part 2 of the Law on the Regulation of the Issue of Zakat Papers and Municipal Debt Bonds (mortgage transactions,
2. Provision of monetary loans and acceptance of loans (credit operations),
3. Purchase of bills and checks (transactions on the purchase of bills),
4. Purchase and sale of financial instruments on behalf of the credit organization at the expense of other persons (general brokerage services), securities in safes and their management for the benefit of other persons;

In addition, collection operations with checks, collection operations with promissory notes, underwriting and other operations are recognized [5].

It is known that the main purpose of the bank's activity is reflected in its mission. The task of the bank is the highest goal that expresses the logic of the creation and operation of the credit organization. It can be said that all short and long-term goals (they can be qualitative and quantitative) planned for the development of banking activities serve to ensure the achievement of the highest goal (mission). A bank's mission can be considered a philosophical idea in a broad sense. In turn, a bank will be established to implement this idea. Such an approach shows that the concept of mission is characterized by stability, that is, regardless of changes in the external environment and economic conditions, the mission remains unchanged for a long enough time. In a narrow sense, the mission provides an opportunity to answer the question of why and for whom the bank was established.

Based on the above, in our opinion, the analysis of the expression of the bank's mission by the banks of different countries serves to determine the practically recognized criteria and standards of the concept of "banking efficiency".

**Analysis of performance indicators.** According to the results of the conducted research, it can be concluded that "efficiency is one of the general economic concepts, which does not have a generally accepted interpretation to date." Unique characteristics that represent the quality level of a certain economic system. This feature can be considered in terms of the ratio of costs incurred and results obtained. In this case, the issue of special attention is related to what costs and what results are taken into account.

Many indicators are offered, including the level of banking efficiency. The main indicators in this direction are return on assets, return on capital, net interest margin, share of operating expenses in

income from banking activities, "Cost to Income Ratio" (SIR). Management systems such as CPM - Corporate Performance Management, BPM - Business Performance Management, EPM - enterprise performance management based on a set of proprietary indicators or key performance indicators (KPI - key performance indicators) can be mentioned.

The obtained indicators are mainly aimed at assessing economic efficiency at the micro level, and do not allow determining the degree of influence of the external environment on the banking activity and, in turn, the banking activity on the external environment. Therefore, we need a system of indicators that allows us to evaluate economic efficiency at the micro and macro level. Such a system of indicators can be conditionally grouped as follows:

- performance indicators at the macroeconomic level;
- indicators within macro and microprudential requirements;
- indicators evaluating the direct and indirect efficiency of the bank's activity.

Performance indicators at the level should cover two directions, namely the macroeconomic effect obtained as a result of banking activity and the impact obtained from the impact of macroeconomic factors on banking activity.

### 3. Summary

Based on the results of the analysis, the following conclusions can be noted:

The observed institutional changes in the activities of the World Banking system and supervisory bodies indicate that a number of fundamental changes are taking place in this area. In particular, today it is necessary for banks to be a market tool for the implementation of programs for the development of strategic sectors of our country, regions and economy. In addition, it is required to strengthen the participation of foreign investors in the capital of commercial banks, as well as to ensure the participation of foreign capital in national development programs by activating work on attracting credit lines of foreign financial and credit institutions. At the same time, the participation of banks in supporting structural changes in the economy by establishing new financial-industrial groups is increasing.

Secondly, fundamental changes are being implemented in the field of monetary policy and commercial banks' activities in accordance with the tasks defined in the Action Strategy for the Development of the Republic of Uzbekistan, as well as in the relevant decrees and decisions of the President. The Republic of Uzbekistan shows the need to turn issues related to increasing the role and importance of economic categories of efficiency and effectiveness of banking activity into one of the important directions of scientific and practical research.

Thirdly, the generally accepted interpretation of the economic essence of the economic category "efficiency", as well as the lack of a system of efficiency evaluation criteria and norms, methods and indicators that fully represent the characteristics of our country's economy. , in particular, the banking sector. underdevelopment requires further activation of scientific research in this direction.

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