IMPACT OF COMMERCIAL BANKS CREDIT POLICY ON MACROECONOMIC STABILITY.

Graduate student of Tashkent Financial Institute
Sultanova Shakhista
Scientific leader, TMI v.b.Associate Professor, PhD
Rakhimov E.
Tashkent State Financial Institute

Annotation. This article investigates the crucial role played by commercial banks' credit policies in influencing macroeconomic stability. Through a comprehensive analysis, we explore the various dimensions of this relationship, considering both theoretical frameworks and empirical evidence. The study employs a mix of quantitative methods and literature review to assess the impact of credit policies on key macroeconomic indicators. The findings contribute to a better understanding of the complex dynamics between commercial banks and the broader economy.

Keywords: Commercial banks, credit policy, macroeconomic stability, monetary policy, economic growth, inflation, interest rates.

Commercial banks are pivotal players in any economy, as they wield significant influence over the allocation of capital through their credit policies. This article delves into the intricate interplay between commercial banks' credit decisions and macroeconomic stability. As central components of monetary policy, these decisions have far-reaching implications for economic growth, inflation, and overall stability.

To comprehend the impact of commercial banks' credit policies, it is essential to review existing literature. Scholars such as Bernanke and Gertler (1989) have explored the transmission mechanism of monetary policy through the credit channel. Others, like Kashyap and Stein (1994), have focused on the role of banks in amplifying or mitigating economic shocks. A synthesis of these works sets the stage for our empirical investigation.

To empirically assess the impact of commercial banks' credit policies on macroeconomic stability, we employ a combination of statistical analysis and econometric modeling. We utilize time-series data on credit growth, interest rates, inflation, and economic growth from reputable sources. Our regression models control for various factors that may confound the relationship, ensuring robust and reliable results.

The credit policy of commercial banks can have significant implications for macroeconomic stability. Macroeconomic stability refers to the overall health and smooth functioning of an economy, and credit policies play a crucial role in influencing

key macroeconomic variables. Here are some ways in which commercial banks' credit policies can impact macroeconomic stability:

Interest Rates and Inflation:

- Commercial banks set interest rates on loans, and these rates influence borrowing costs for businesses and individuals. An expansionary credit policy with lower interest rates can stimulate borrowing, spending, and investment, potentially boosting economic activity. However, if credit is extended excessively, it can contribute to inflationary pressures.

The strategic goals of the credit policy of a commercial bank

- Actions to change the size and structure of the commercial bank's loan portfolio based on the stage of the credit cycle and the state of the economic system
- Finding the optimal ratio of elements of the loan portfolio's structure depending on the type of loans, collateral and maturity of loans
- Prioritizing the development of economic relations with strategic partners
- Diversification of issued bank loans by sectors of the national economy
- Maximizing the profitability of credit operations and return on the bank stocks, provided that the risks of lending are minimized
- Balancing the sources of accumulation of the commercial bank's financial resources and the areas of funds placement in lending
- Implementation of credit policy on the basis of financial stability as an element of financial and economic security of a banking institution
- Growth of the client base under the condition of high quality of credit services
- Levelling of reputational risks and maintaining the position of a reliable bank, a high level of confidence on the part of consumers of the commercial bank's financial services
- Adherence to the principles of balance and prudence of management decisions on the use of the commercial bank's credit resources

Fig. 1. **Systematization of strategic goals of commercial bank's credit policy**

Source. Compiled by the authors.

Aggregate Demand and Economic Growth:

- Commercial banks' lending practices affect aggregate demand in the economy. An easy credit policy can lead to increased consumer spending and business investments, contributing to economic growth. Conversely, a restrictive credit policy with higher interest rates can dampen borrowing and spending, potentially slowing down economic activity.

Financial Stability:

- The credit quality of loans issued by commercial banks can impact financial stability. If banks engage in risky lending practices or have a high level of non-performing loans, it can lead to financial instability. Banking crises can have severe consequences for the overall economy, affecting confidence, investment, and

consumption.

Exchange Rates:

- Commercial banks' credit policies can influence the exchange rate of a country's currency. Lower interest rates may lead to capital outflows as investors seek higher returns elsewhere, putting downward pressure on the currency. This can have implications for trade balances and overall economic stability.

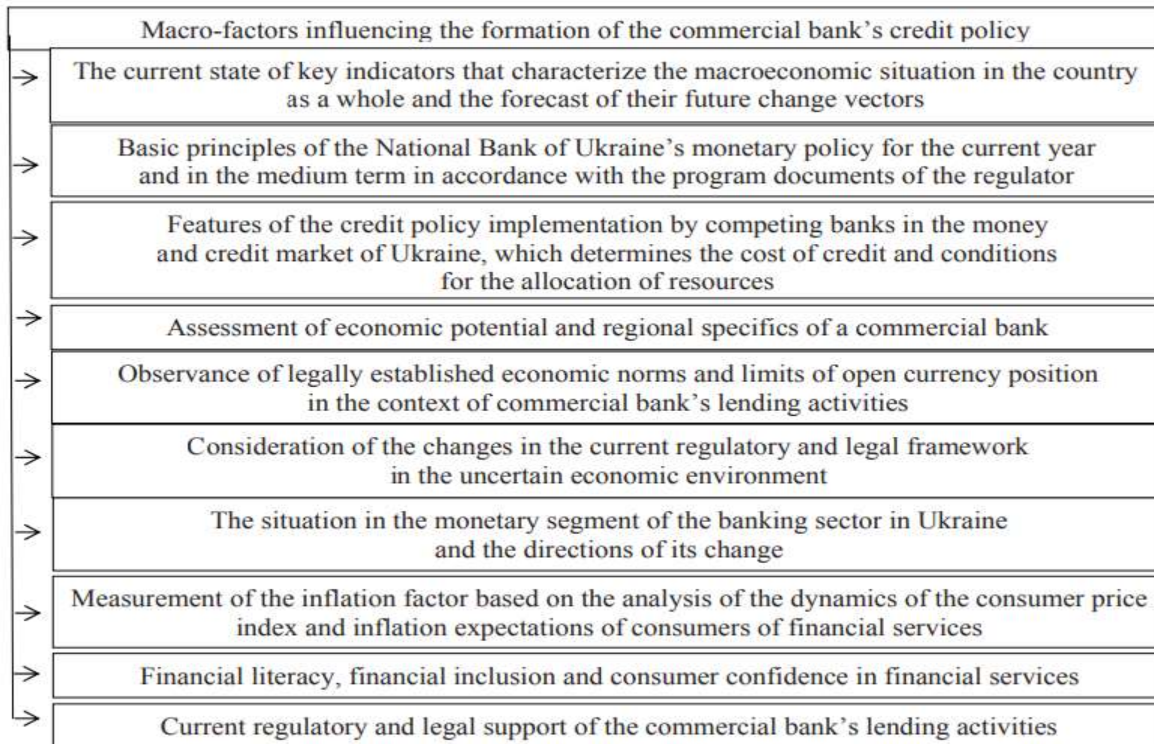

Fig. 2. **Macro-factors influencing formation of commercial bank's credit policy**

Source. Compiled by the authors.

Asset Prices:

- An expansionary credit policy can contribute to asset price inflation, such as rising real estate prices or stock market valuations. While this may create a wealth effect and boost consumer spending, it also poses the risk of asset bubbles and financial imbalances that can lead to economic instability if they burst.

Debt Levels:

- Commercial banks' credit policies can influence the overall level of debt in the economy. Excessive borrowing by households, businesses, or the government can lead to a buildup of debt, making the economy vulnerable to economic downturns and financial crises.

Policy Transmission Mechanism:

- Central banks often use interest rates as a tool to implement monetary policy. Commercial banks' credit policies affect the transmission of these monetary policy changes to the broader economy. The effectiveness of monetary policy in achieving macroeconomic stability depends on how commercial banks respond to changes in

interest rates.

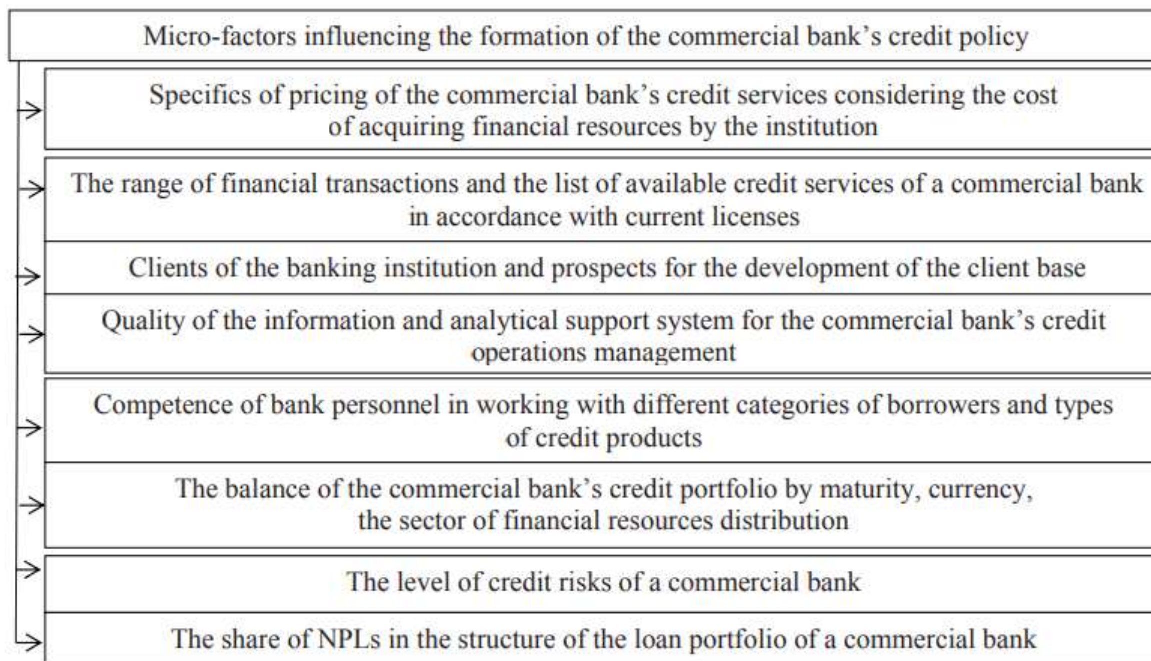

Fig. 3. **Micro-factors influencing formation of commercial bank's credit policy**
Source. Compiled by the authors.

In summary, the credit policies of commercial banks play a vital role in shaping the macroeconomic landscape. Striking a balance between promoting economic growth and preventing excessive risk-taking is crucial for maintaining macroeconomic stability. Government regulators and central banks often monitor and adjust policies to ensure a healthy and stable financial system.

The discussion section unpacks the implications of our findings. We explore the mechanisms through which credit policies affect the broader economy and discuss the potential trade-offs faced by policymakers. Additionally, we consider the role of financial regulations and institutions in shaping the impact of credit policies on macroeconomic stability.

Conclusions:

In conclusion, our study underscores the substantial impact of commercial banks' credit policies on macroeconomic stability. The findings contribute to the ongoing discourse on the role of monetary policy in shaping economic outcomes. Policymakers must carefully consider the implications of credit decisions on key macroeconomic indicators to foster a stable and resilient economic environment.

As a way forward, we recommend that policymakers pay close attention to the intricate dynamics between commercial banks' credit policies and macroeconomic stability. Striking a balance between promoting economic growth and preventing excessive inflation is crucial. Furthermore, ongoing monitoring and adjustments to financial regulations may be necessary to enhance the effectiveness of credit policies in maintaining a stable macroeconomic environment.

References

1. From the speech of the President of the Republic of Uzbekistan on December 14, 2016, at the joint session of the Legislative Chamber and the Senate of the Oliy Majlis of the Republic of Uzbekistan.
2. www.cbu.uz – Official website of the Central Bank of Uzbekistan.
3. I.R.Toymuhamedov. "Banking". Publishing house of the Union of writers of Uzbekistan, 2005.
4. Formed by author based on information on the websites www.banki.ru and www.nbu.uz – official websites of commercial banks of Russia and National bank of Uzbekistan.