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The impact of dollarisation on the stability of the payment system

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Abstract. Dollarisation plays a crucial role in shaping the stability of the payment system, particularly in economies with high levels of foreign currency use. High dollarisation can increase the vulnerability of the national economy to external shocks, especially to exchange rate fluctuations and changes in the monetary policy of large economies. The purpose of this study was to analyse the impact of dollarisation on the stability of the payment system in an economy with a high level of foreign currency use, with an emphasis on assessing the dynamics of the decline in dollarisation in the banking sector of the Kyrgyz Republic and developing recommendations for the formation of a balanced monetary policy that contributes to strengthening financial stability. In recent years, the Kyrgyz Republic has seen a steady trend towards a decrease in the level of dollarisation of both the loan portfolio and the deposit base of the banking sector. This paper explored the impact of dollarisation on the stability of the payment system, focusing on its influence on financial sector dynamics, liquidity risks, and the effectiveness of monetary interventions. The study also analysed the structural implications of dollarisation, including its effect on banking operations, inflation control, and exchange rate fluctuations. Special attention was given to policy measures that can mitigate the negative consequences of dollarisation while fostering a more resilient and adaptive payment system. The article discussed the positive and negative aspects of dollarisation on the stability of the payment system The findings underscore the importance of balanced monetary strategies to enhance financial stability in dollarised economies

Keywords: external debt; foreign currency deposits banking sector; foreign currency credit; foreign currency deposits; inflation; economic stability

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INTRODUCTION

The stability of a country's payment system is a fundamental factor in ensuring financial security, economic growth, and overall macroeconomic stability. However, in economies with high levels of dollarisation, the widespread use of foreign currency alongside or instead of the national currency presents both opportunities and challenges. Dollarisation can enhance transactional efficiency, reduce exchange rate risks for businesses engaged in international trade, and increase confidence in financial transactions. At the same time, it can undermine the effectiveness of monetary policy, limit the central bank's ability to regulate liquidity, and increase vulnerabilities to external shocks. To enhance customer service, FinTech companies must consider consumer preferences (de Luna *et al*., 2023). According to N. Agarwal *et al*. (2023), blockchain technology is key to improving payment system processes such as clearing and settlement. Research on remittances has shown their growth and accessibility, with government programs increasing remittance activity, particularly in the Economic Community of West African States (ECOWAS) region (Niankara & Rachidatou, 2023). Researchers are increasingly focusing on the connection between technological progress, financial innovation, and payment systems. As noted by I. Khan *et al*. (2023), innovations in payment systems are expected to support advancements in the banking sector, with green banking emerging as a key area for development.

Mobile payments have rapidly emerged as the dominant channel for financial transactions, surpassing traditional methods such as ATMs, electronic checks (e-checks), and electronic card payments in both usage frequency and transaction volume (Bojjagani *et al*., 2021). This shift reflects a broader transformation in consumer behaviour, driven by the widespread adoption of smartphones, improved mobile internet infrastructure, and the increasing convenience and speed of mobile-based financial services. Unlike traditional payment methods, mobile payments offer real-time transaction capabilities, user-friendly interfaces, and seamless integration with other digital platforms such as e-commerce, banking apps, and financial management tools (Pyrih, 2023). Their accessibility and adaptability have made them particularly appealing to younger, tech-savvy users, as well as to underserved populations in remote or rural areas who may lack access to physical banking infrastructure. Moreover, mobile payments contribute significantly to the development of cashless economies by reducing dependence on physical currency and enhancing financial inclusion. As mentioned by I. Shevchenko (2024), their growing importance is also pushing banks and fintech companies to innovate continuously – investing in security enhancements, biometric authentication, and AI-driven personalisation features.

As mobile payments continue to evolve, they are expected not only to reshape the landscape of retail banking but also to play a critical role in the modernisation of national payment systems, especially in developing countries aiming to leapfrog traditional financial infrastructures (Scannella, 2023). The proliferation of mobile payment platforms, such as digital wallets and mobile banking apps, provides an innovative solution to financial inclusion challenges by offering convenient and secure ways for individuals in underserved or rural areas to access banking services without the need for physical bank branches. This shift towards mobile payments also drives the adoption of digital currencies, enhances financial transparency, and reduces the reliance on cash, which can be costly and inefficient. In addition, mobile payments support real-time transactions, improving the efficiency of payment systems and facilitating cross-border transactions, which is particularly beneficial for countries with limited access to global financial markets. Furthermore, as these systems become more sophisticated, they can integrate with other digital financial services, such as lending and insurance, to create a more comprehensive and accessible financial ecosystem, ultimately contributing to the economic growth and stability of developing nations.

This study aimed to explore the multifaceted impact of dollarisation on the stability of the payment system in economies characterised by significant reliance on foreign currencies. Special attention was given to the Kyrgyz Republic, where recent trends indicate a gradual reduction in the level of dollarisation within the banking sector, particularly in terms of loan portfolios and deposit structures. The research sought not only to assess these dynamics and their implications for financial resilience but also to identify the underlying factors driving this shift. Furthermore, the study endeavoured to formulate practical and evidence-based recommendations for the development of a balanced and adaptive monetary policy. Such a policy should mitigate the risks associated with high levels of dollarisation, enhance the functionality and reliability of the national payment system, and strengthen overall financial sector stability. By analysing both domestic developments and international experiences, the study contributed to the broader discourse on how emerging economies can navigate the challenges posed by dollarisation while promoting sustainable financial development.

MATERIALS AND METHODS

The theoretical foundations of dollarisation and the development of payment systems were comprehensively examined through an in-depth analysis of the legislative and regulatory framework governing monetary circulation and financial infrastructure in the Kyrgyz Republic. Particular attention was given to the normative acts of the National Bank of the Kyrgyz Republic, which play a key role in shaping the architecture of the country's payment system and managing the risks associated with foreign currency use. Furthermore, the research incorporated a critical review of academic literature, including the works of contemporary economists and financial theorists from both domestic and international institutions. These sources offered diverse perspectives on the nature, causes, and consequences of dollarisation, as well as the principles of effective regulation and modernisation of national payment systems. Comparative approaches were especially valuable, as they highlighted how countries with varying levels of economic development respond to similar challenges associated with currency substitution and financial stability. To identify key trends and regularities in the evolution of payment systems under conditions of dollarisation, the study reviewed and synthesised the findings of empirical research carried out in different countries. This allowed for the integration of cross-country insights, enhancing the contextual relevance of the conclusions drawn for the Kyrgyz Republic.

A combination of general scientific methods – including comparative analysis, generalisation, induction and deduction, abstraction, and systematisation – was applied throughout the study. Special emphasis was placed on the interpretation of statistical time series related to the structure and currency composition of the banking sector's deposit and credit portfolios. These data were assessed not only in terms of their historical trends but also through the lens of their implications for macroeconomic and monetary stability. Additionally, methodological tools were employed to analyse correlations between the level of dollarisation and indicators such as exchange rate volatility, inflation expectations, and interest rate differentials. These approaches enabled a more nuanced understanding of the interactions between monetary policy, market behaviour, and external economic conditions in shaping the trajectory of the Kyrgyz Republic's financial system.

RESULTS

According to the National Bank of the Kyrgyz Republic (n.d.), as of October 2024, the level of dollarisation of the loan portfolio of the banking sector amounted to 20.1%, having decreased by 2.0 percentage points (pp) since the beginning of 2024. This indicator demonstrates a positive trend compared to previous years, which indicates an increase in public and business confidence in the national currency. The main factors contributing to the decrease in loan dollarisation are: stability of the som exchange rate and the implementation of a balanced monetary policy; development of domestic sources of financing in the national currency; tightening of requirements for currency regulation by the National Bank. As of October 2024, the level of dollarisation of the deposit base of the banking sector was 42.9%, having decreased by 2.7 percentage points compared to the beginning of the year. This indicates a gradual transition of the population and enterprises to the use of the national currency when placing deposits.

Among the key factors influencing the decrease in dollarisation of deposits, the following can be distinguished: increase in rates on deposits in the national currency, which makes them more attractive; confidence in macroeconomic policy and measures to ensure financial stability; development of financial instruments denominated in soms, including government securities and deposit certificates. Comparison with previous periods shows a significant decrease in the level of dollarisation in the Kyrgyz Republic in recent years. For example, in 2014, the dollarisation level of the loan portfolio was 57.6%, and the deposit base was 64.2%. A significant decrease in these indicators indicates the implementation of an effective monetary policy and the formation of a stable demand for the national currency.

However, despite the positive dynamics, the level of dollarisation of deposits remains relatively high. This is due to the continuing inflation risks, as well as the influence of external economic factors. In the future, a further decrease in dollarisation is possible with increased measures to develop the national financial market, diversify savings instruments and increase the competitiveness of som assets. An analysis of the dollarisation level of the banking sector of the Kyrgyz Republic shows a gradual decrease in dependence on foreign currency. This is a positive signal for the economy, as it reduces currency risks, increases the effectiveness of monetary policy and helps strengthen the financial system. Further development of the national financial services market, stimulation of deposits in the national currency and increased confidence in monetary policy will be key factors in ensuring the stability of the financial sector in the future.

In 2023, the trade sector received the largest volume of loans in foreign currency, amounting to 19,589.6 million soms, which exceeds 60% of the total (National Bank, n.d.). This is due to the high need for working capital and active foreign economic activity. The average weighted interest rate on loans in this sector was 8.51%, which corresponds to the average level. In second place in terms of lending is industry, which received 3,170.4 million soms. This sector requires significant capital investment, which makes it a significant area for lending. The interest rate in industry was 7.74%, which is below the average and makes borrowed funds more accessible. Loans in the construction sector reached 2,775.5 million soms, which indicates a high need for financing large projects. The average interest rate was 8.26%, which is higher than in industry, but lower than in mortgage lending. In the social services sector, the volume of foreign currency loans amounted to 1,756.5 million soms, which indicates the active development of healthcare and education. The interest rate in this segment was at 8.41%, which is approximately the average value. Mortgage lending attracted 839.5 million soms, but the interest rate in this segment was the highest – 9.65%. This is due to the long-term nature of such loans and high risks of repayment. The lowest interest rate was recorded for consumer loans, which amounted to 720.7 million soms. The weighted average rate was 3.91%, which is explained by the short loan terms and high liquidity of such loans. The smallest volume of lending was recorded in the communications sector, where the amount of loans issued amounted to 31.6 million soms, and the interest rate reached 6.00%. This is probably due to the low demand for external financing in this industry (Fig. 1).

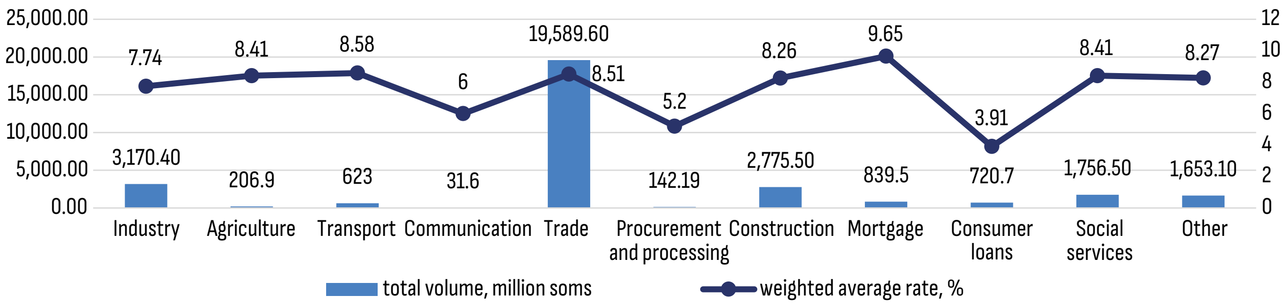

Figure 1. Structure of loans issued by commercial banks in the Kyrgyz Republic in foreign currency in 2023
Source: compiled by the authors based on data from the National Bank of the Kyrgyz Republic (n.d.)

The assessment of credit activity in foreign currency within the banking sector of the Kyrgyz Republic plays a crucial role in evaluating currency risk and the financial stability of banks amidst exchange rate fluctuations. An analysis of foreign currency credit activity in the Kyrgyz banking sector from 2018 to 2023 reveals a notable decline in the volume of foreign currency loans relative to both deposits and the overall loan portfolio. The ratio of foreign currency loans to foreign currency deposits has exhibited a consistent downward trend. In 2018, this indicator stood at 85.8%, rising to 92.5% in 2019, likely driven by increased demand for loans denominated in foreign currencies. However, a sharp decline followed from 2020 onward, with the ratio dropping significantly to 29.6% by 2023. This decrease is presumably attributed to heightened currency risks, stricter regulatory requirements for foreign currency lending, and a shift in borrower preferences toward loans in the national currency.

Similarly, the proportion of foreign currency loans within the total loan portfolio experienced a decline over the same period. While it accounted for 38% in 2018, this share fell to 22.1% by 2023. These changes reflect broader trends in risk management and regulatory adjustments aimed at enhancing financial stability in the banking sector (Fig. 2).

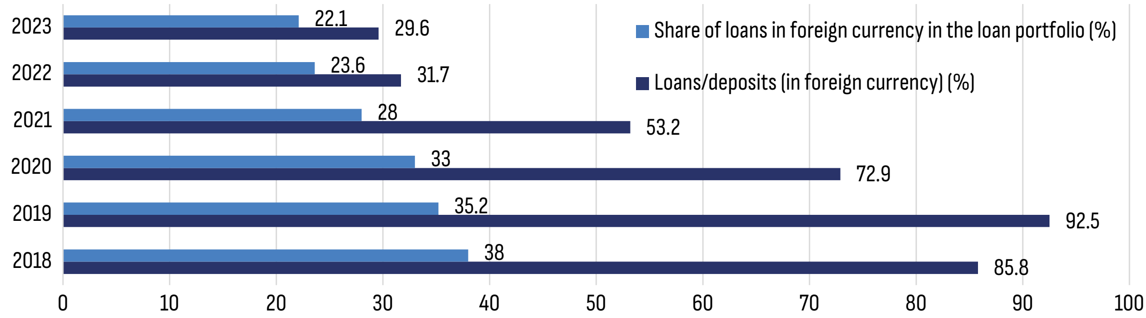

Figure 2. Indicators of credit activity of the banking sector in foreign currency in the Kyrgyz Republic, %
Source: compiled by the authors based on data from the National Bank of the Kyrgyz Republic (n.d.)

The gradual de-dollarisation of the banking sector in the Kyrgyz Republic and the shift toward issuing loans in the national currency highlight a significant transformation in banking strategies. This trend is likely driven by efforts to reduce the economy's dependence on foreign currency, as well as borrowers' adaptation to economic conditions influenced by exchange rate fluctuations. The observed dynamics indicate a declining role of foreign currency lending in the Kyrgyz banking sector. This shift signifies increased resilience of the banking system to external shocks and currency risks while also reflecting evolving banking strategies and borrower preferences. The ratio of foreign currency loans to foreign currency deposits serves as a key indicator of this transition. Its steady decline from 2018 to 2023 underscores the banking sector's reduced reliance on foreign currency in its operations.

A noticeable drop in the share of foreign currency loans relative to deposits indicates a lowering of currency risk associated with banking activities. Furthermore, the decreasing proportion of foreign currency loans within the overall loan portfolio reflects the diminishing dependence of banks on foreign currency transactions. These developments stem from banks' ongoing efforts to mitigate currency risks and enhance the stability and reliability of their assets amid exchange rate fluctuations. It remains crucial for banks to carefully manage their credit portfolios, considering currency risks to maintain financial stability in a changing economic landscape.

The public debt of the Kyrgyz Republic remains a critical factor in the country's economic stability, reflecting both external obligations and domestic borrowing dynamics. As of January 2024, the total public debt of the Kyrgyz Republic – including both external and domestic obligations – stood at $6.27 billion (equivalent to 560.08 billion KGS) (National Bank, n.d.). This figure represents 44.5% of the revised projected GDP. Breaking it down further, the external debt amounted to $4.63 billion (413.29 billion KGS), while the domestic debt totalled $1.64 billion (146.79 billion KGS) (Fig. 3).

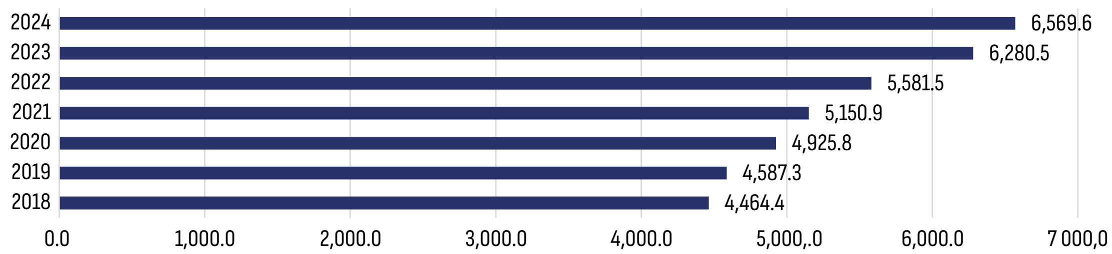

Figure 3. State debt of the Kyrgyz Republic, million USD
Source: compiled by the authors based on data from the Ministry of Finance of the Kyrgyz Republic (n.d.)

More than half (53.6%) of the external debt was comprised of multilateral loans, totalling $2.48 billion. Meanwhile, bilateral concessional loans accounted for another $2.08 billion, representing 44.9% of the country's external debt obligations. In 2023, the external debt of the Kyrgyz Republic remained heavily reliant on multilateral and bilateral creditors, reflecting the country's continued dependence on external financing for economic stability and development.

The Export-Import Bank of China was the largest single creditor, accounting for 36.7% of Kyrgyzstan's total external debt (Fig. 4). This significant share highlights the strong financial ties between the two countries, primarily through large-scale infrastructure projects funded under China's Belt and Road Initiative (BRI). However, such a high level of debt dependence on a single lender raises concerns about potential risks related to debt sustainability and repayment obligations.

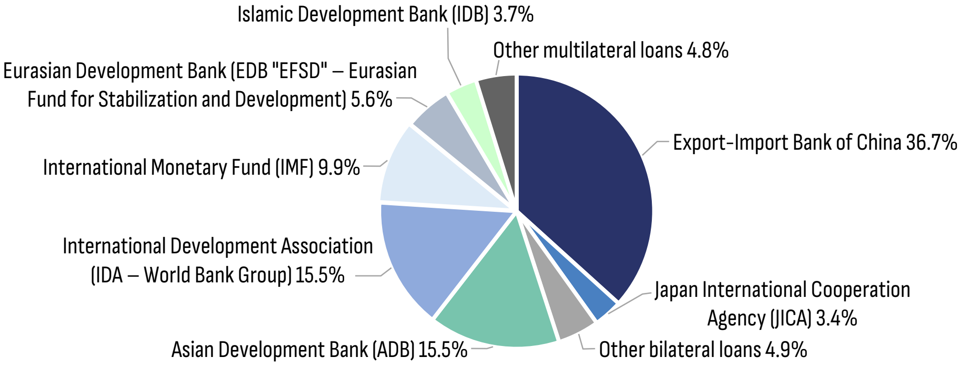

Figure 4. External debt structure and major creditors of the Kyrgyz Republic in 2023, %

Source: compiled by the authors based on data from the Ministry of Finance of the Kyrgyz Republic (n.d.)

The significant share of ADB and IDA loans (each at 15.5%) suggests that Kyrgyzstan continues to rely on concessional financing with relatively lower interest rates and longer repayment terms. The IMF's 9.9% share reflects its involvement in economic stabilisation efforts and fiscal management programs. Meanwhile, the Eurasian Development Bank (EDB "EFSD") and the Islamic Development Bank (IDB) contribute to regional financial support and sectoral development initiatives.

Strong multilateral support: the increasing role of institutions like the ADB, IDA, and IMF suggests an effort to diversify the debt structure and secure more stable financing sources. Debt sustainability challenges: while multilateral loans often come with favourable terms, the overall debt burden remains a concern, requiring careful management to ensure long-term financial stability.

The structure of Kyrgyzstan's external debt in 2023 reflects a strong reliance on China and multilateral lenders, with decreasing bilateral debt from other countries. While this diversified debt composition reduces risks associated with dependence on any single source, the high exposure to Chinese loans remains a critical financial and geopolitical consideration for the country's economic future.

By examining global and regional case studies, this research provides insights into the mechanisms through which dollarisation interacts with the payment system and to propose strategic recommendations to enhance financial stability in highly dollarised economies. The authors conclude that positive aspects of dollarisation on the stability of the payment system are:

1. Increased confidence and stability. Dollarisation can enhance trust in the payment system by stabilising the national currency. It provides a more reliable and globally accepted currency, which reduces the risks of currency devaluation and inflation, ultimately fostering greater economic stability.

2. Attraction of foreign investment. The use of the dollar in the payment system encourages foreign investments, as international investors prefer dealing with a stable, globally recognised currency. This can lead to improved capital inflows and financial sector growth.

3. Reduced exchange rate risk. Dollarisation helps minimise exchange rate volatility, particularly in countries with unstable local currencies. This enhances the predictability of cross-border transactions, benefiting businesses and individuals engaging in international trade.

4. Enhanced integration into the global economy. A dollarised payment system can help a country integrate more smoothly into the global financial market, making international transactions faster and cheaper due to the widespread use of the dollar in global trade.

5. Lower borrowing costs. Countries that adopt the dollar may experience lower interest rates on loans, as the use of a stable currency lowers perceived risk for lenders, which can lead to more affordable financing for businesses and government projects.

Negative aspects of dollarisation on the stability of the payment system:

1. Loss of monetary policy control. By adopting the dollar, a country forfeits the ability to implement independent monetary policies, such as controlling inflation or adjusting interest rates, which are typically managed through a national currency.

2. Dependence on U.S. economic policy. Dollarised economies become highly dependent on the U.S. Federal Reserve's monetary policies. Any changes in U.S. interest rates or inflation can directly impact the domestic economy, potentially leading to instability if the policies are not aligned with national needs.

3. Inflationary pressures. While dollarisation can help stabilise inflation initially, the influx of dollars into the economy can lead to inflationary pressures, particularly if the economy is not growing at a pace that supports the increased money supply.

4. Loss of exchange rate flexibility. A dollarised system eliminates the flexibility of devaluing the local currency to respond to economic challenges, leaving the country vulnerable to external economic shocks that it cannot mitigate through currency adjustments.

5. Imbalances in economic growth. Dollarisation may lead to uneven economic growth, particularly in countries that rely heavily on exports. A strong dollar could make

exports more expensive, impacting the competitiveness of the country's products in global markets.

In summary, while dollarisation can provide stability, foreign investment, and integration into global markets, it also poses risks related to the loss of independent monetary policy, economic dependency on the U.S., and potential inflationary pressures.

DISCUSSION

Dollarisation, the adoption of the U.S. dollar as a national currency, has significant impacts on macroeconomic stability and financial systems. Studies indicate that dollarisation is associated with reduced inflation rates and improved economic growth in Latin American countries (Castillo, 2006). In Ecuador, dollarisation led to decreased inflation, increased GDP growth, and higher monetary supply and liquidity (Salazar & Zambrano, 2019). However, according to L. White (2017), dollarisation also presents challenges, including loss of seigniorage and limitations on monetary policy. While dollarisation may promote financial deepening in high-inflation environments, it is also associated with increased financial instability. The credibility of macroeconomic policies and institutional quality are key determinants of dollarisation across countries (De Nicoló *et al*., 2003). Despite potential benefits, dollarisation's impact on economic stability is complex, with factors such as oil prices and foreign investment influencing outcomes in dollarised economies (Salazar & Zambrano, 2019).

The role and development of payment systems have become crucial in modern economies, driving the transition towards digital financial transactions and enhancing the efficiency and accessibility of financial services. Technologically advanced payment systems have enabled the widespread adoption of electronic banking, mobile banking, and payment cards as key banking instruments. The successful implementation of digital payment systems in India, like the case described by K. Meghana & S. Tripathi (2018), offers valuable insights for Kyrgyzstan, where non-cash transactions are expanding. China's experience demonstrates that digital payments integrated with banks enhance both profitability and efficiency (Wang & Gunawan, 2022). A review of research on digital payment trends highlights mobile payments as the most studied area, aiding scholars in exploring innovative financial models (Panetta *et al*., 2023).

Innovative developments in payment systems are increasingly recognised as vital drivers of progress within the banking sector, paving the way for more efficient, secure, and inclusive financial services (Kozhoshev *et al*., 2022). Among these advancements, green banking is gaining prominence as a strategic direction aimed at aligning financial operations with environmental sustainability goals (Masukujjaman *et al*., 2015). By integrating eco-friendly practices and digital innovations, green banking not only enhances operational efficiency but also contributes to reducing the environmental footprint of financial institutions. The adoption of digital payment platforms, paperless transactions, and sustainable investment strategies underscores the growing importance of environmentally responsible banking. As payment systems continue to evolve, their synergy with green banking principles holds the potential to transform the financial landscape – promoting economic development while supporting global efforts to combat climate change. This convergence highlights the need for further research and policy support to fully realise the benefits of sustainable innovation in the banking industry.

Electronic payments are rapidly evolving due to the interaction of payment system participants over the internet and the expansion of e-commerce platforms (Bezhovski, 2016). According to X. Cao *et al*. (2018), research focusing on trust-building mechanisms during the shift from online to mobile payments highlights its effect on user satisfaction and future usage. As mobile payments grow, the need for robust cybersecurity measures also increases (Oliveira *et al*., 2016). As mentioned by J. Dong *et al*. (2020), the development of payment systems has a positive impact on the growth of banks and cybersecurity. The Technology Acceptance Model (TAM) enhances trust and service quality (Hu *et al*., 2019). Overall, digital technologies are playing an increasingly important role in advancing payment systems and bank development, as noted in recent studies (Gomber *et al*., 2018).

The expansion of payment systems enhances the use of electronic money, leading to its integration into all financial transactions. As mentioned by W. Bossu *et al*. (2020), central banks are exploring digital currency issuance, with legal aspects being discussed in this context. Digital payment systems and their role in attracting foreign investment are also important for economic growth (Sayakbaeva *et al*., 2020). The state's use of innovative technologies in the payment system is driving the development of strategic industries (Mukambaeva *et al*., 2023). The fintech revolution and financial information systems are critical to the banking sector's technological development (Tara *et al*., 2015). Mobile payments are identified as a key area for future payment system growth (Shaumya & Arulrajah, 2017).

The study highlights the importance of implementing green banking to support sustainable economic growth. The focus is on the impact of green financial instruments on stabilising the banking system, as well as stimulating investments in environmentally friendly projects and technologies. The authors argue that banks that actively implement green initiatives are able to attract new customer segments and investors who are interested in supporting the sustainable development of the ecosystem. This study confirms that the integration of green banking into digital payment systems can create a synergistic effect that contributes to the sustainable development of the banking sector, like also was mentioned by K. Sharmeen *et al*. (2019) and P. Sarma & A. Roy (2020).

D. Linh & T. Anh (2017) examine how digital payment systems can become the basis for implementing green banking strategies in developing countries. They highlight key benefits of digitalisation, including lower transaction costs, reduced carbon footprint, and increased accessibility of green financial products. Particular attention is paid to mobile and online payments, which play an important role in the mass adoption of eco-conscious financial instruments. This study highlights that innovations in payment systems can become the basis for further development of green banking, which is especially relevant for emerging economies such as Kyrgyzstan.

The study by N. Akylbekova & S. Bayguttiev (2019) highlights the key role of financial technologies such as blockchain and mobile payment systems in accelerating the adoption of green banking. The authors focus on how innovative technologies can minimise risks associated with environmental and social aspects of financial transactions, as well as improve the transparency and traceability of environmental indicators. The paper also examines how fintech platforms can help improve governance and stimulate investment in green projects. The studies also confirm that the implementation of fintech solutions in payment systems is an important step in creating sustainable and innovative financial instruments that contribute to the development of green banking (Zheng *et al*., 2021; Mir & Bhat, 2022).

This research deepens the understanding of how innovations in payment systems and technological innovations can become a driving force for the development of green banking, which confirms the importance of integrating sustainable financial solutions into banking activities, especially in developing countries. Innovations in payment systems are expected to support advancements in the banking sector, with green banking emerging as a key area for development (Kondyukova *et al*., 2018; Chen *et al*., 2022). Digital payment systems and their role in attracting foreign investment are also important for economic growth. The state's use of innovative technologies in the payment system is driving the development of strategic industries. Financial information systems and the fintech revolution are discussed and are relevant to technology development in the banking sector (Qureshi & Hussain, 2020; Ratnasari *et al*., 2021). The study by A. Rehman *et al*. (2021) explores the relationship between the adoption of green banking practices and the improvement of environmental performance in Pakistan, using structural equation modelling to analyse the impact of these practices on both the financial and environmental outcomes of banking institutions.

The Program for the Development of the Green Economy in the Kyrgyz Republic for 2019-2023 (2019) was approved by the Resolution of the Government of the Kyrgyz Republic and is a strategic document aimed at transforming the economy into a more sustainable and environmentally friendly development model. The program emphasises the importance of developing green financing, which includes several key aspects. Firstly, it is necessary to create conditions for providing preferential loans aimed at supporting green projects, which will stimulate environmentally sustainable development. Secondly, the focus is on attracting international climate and environmental funds, which can become an important source of financing for the implementation of environmentally friendly initiatives. The program also emphasises the need to increase the environmental responsibility of financial institutions, which includes the introduction of practices that promote sustainability and minimise the environmental footprint. An important part of the program is support for digital solutions, including innovative payment systems that help minimise paperwork and reduce energy costs, which also contributes to the sustainable development of the banking sector. Another important documents in this field are the Law of the Kyrgyz Republic No. 21 "On the payment system of the Kyrgyz Republic" (2015) and the Regulations of the National Bank of the Kyrgyz Republic "On the real-time gross settlement system in the Kyrgyz Republic" (2015).

The fintech revolution and financial information systems are critical to the banking sector's technological development. Thus, the impact of dollarisation on the stability of the payment system is manifested in the increased sensitivity of the economy to external shocks, which emphasises the need for a consistent reduction in the level of dollarisation as a key condition for ensuring the stability and efficiency of the national financial infrastructure.

CONCLUSIONS

The modernisation of the payment system drives the adoption of technological innovations across all banking operations, ensuring the system remains highly competitive. The integration of the national payment system into the global economy is closely linked to the dollarisation of the financial system, including the banking sector. Dollarisation encourages the inflow of foreign investment, supporting entrepreneurship and facilitating grants and aid from international organisations, especially for investments in the social sphere. Collaborating with foreign partners allows the adoption of new technologies and the acquisition of digital knowledge. Additionally, dollarisation assists in attracting foreign investment for the development of a green economy. Therefore, the payment system serves as a catalyst for the growth of the banking sector and the improvement of the national economy's investment climate, providing the foundational infrastructure that ensures customer satisfaction with banking services at any time and from any location.

The payment system plays a vital role in the expansion of the banking sector and in enhancing the investment climate of the national economy, serving as a critical platform for the flow and exchange of financial resources among economic agents. The automation and modernisation of payment transactions significantly reduce the time and effort required for most banking activities, as well as for financial settlements between investors and entrepreneurs. This global growth of payment systems fosters the sustainable development of the banking sector and contributes to improving the national economy's investment environment.

Governments should focus on enhancing the credibility and stability of domestic financial institutions. By promoting sound banking practices and strengthening the regulatory framework, countries can mitigate the risks associated with excessive reliance on foreign currencies. While dollarisation is a common practice, countries should consider diversifying their foreign reserves by holding other stable currencies, such as the euro or the Swiss franc. This diversification can reduce overdependence on the U.S. dollar and cushion the economy from external shocks. If a country is heavily dollarised, the government may adopt a gradual approach to reduce the reliance on the dollar. This can involve encouraging the use of the local currency for everyday transactions, especially by promoting the acceptance of digital payments and national currency alternatives. Even in a dollarised economy, central banks can focus on developing indirect monetary policy tools to influence inflation, interest rates, and liquidity, such as through open market operations or influencing the demand for credit. This would help mitigate the loss of monetary control. One way to regain some control over the economy is to develop a robust domestic bond market, enabling the government to issue bonds in the local currency. This would help reduce the reliance on dollar-denominated debt and attract domestic investors to support the economy. Public education campaigns on the benefits and risks of dollarisation can help businesses and individuals make informed decisions. By raising awareness about managing foreign exchange risks and the importance of maintaining a diversified currency portfolio, the government can promote better economic resilience.

The government should implement strong fiscal policies, including maintaining budget surpluses, reducing public debt, and increasing the savings rate. This helps reduce the external vulnerability that often comes with a high level of dollarisation, ensuring the country is less susceptible to currency fluctuations. While full dollarisation removes the flexibility of exchange rates, some countries may benefit from adopting a managed float or a dual currency system, where the national currency is allowed to fluctuate within a certain range, providing some buffer against external shocks. Offering incentives such as tax breaks or interest rate subsidies for transactions conducted in the national currency can encourage businesses and consumers to rely more on the local currency, fostering confidence and reducing reliance on foreign currencies like the dollar. By adopting these strategies, governments can better manage the process of dollarisation, balance its benefits with the risks, and foster long-term economic stability and growth.

In the future, further research on the impact of dollarisation on the stability of the payment system can focus on several key areas. First of all, an important task is to assess the effectiveness of the implemented monetary policy and the applied de-dollarisation instruments in the context of ensuring the stability of the payment system, especially against the backdrop of global financial instability. No less relevant is the study of the potential of central bank digital currencies (CBDC) in reducing dependence on foreign currency and strengthening confidence in the national currency. The development of such instruments requires a comprehensive analysis of their impact on the structure of monetary settlements and the preferences of economic agents. Of considerable interest is also a comparative analysis of the international experience of countries that have managed to achieve a sustainable reduction in the level of dollarisation and strengthen their own payment systems. The study of such examples will allow adapting the most effective practices to the specifics of the economy of the Kyrgyz Republic. In addition, a promising area is modelling systemic risks associated with changes in the level of dollarisation. The development of econometric models will allow predicting the consequences of these changes for the stability of the payment system in the medium and long term. Thus, further research should be focused on an interdisciplinary approach to studying dollarisation as a complex socio-economic phenomenon. This will allow developing balanced and sustainable strategies to strengthen the national financial system and reduce its dependence on external currency factors.

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Аннотация. Долларизация играет решающую роль в формировании стабильности платежной системы, особенно в экономиках с высоким уровнем использования иностранной валюты. Высокая долларизация может повысить уязвимость национальной экономики к внешним шокам, особенно к колебаниям обменного курса и изменениям в денежно-кредитной политике крупных экономик. Целью данного исследования был анализ влияния долларизации на устойчивость платежной системы в экономике с высоким уровнем использования иностранной валюты с акцентом на оценку динамики снижения долларизации в банковском секторе Кыргызской Республики и разработку рекомендаций по формированию сбалансированной денежно-кредитной политики, способствующей укреплению финансовой стабильности. В последние годы в Кыргызской Республике наблюдается устойчивая тенденция к снижению уровня долларизации как кредитного портфеля, так и депозитной базы банковского сектора. В данной работе исследовалось влияние долларизации на устойчивость платежной системы с акцентом на ее влиянии на динамику финансового сектора, риски ликвидности и эффективность денежных интервенций. В исследовании также анализировались структурные последствия долларизации, включая ее влияние на банковские операции, контроль инфляции и колебания обменного курса. Особое внимание уделено политическим мерам, которые могут смягчить негативные последствия долларизации, способствуя при этом формированию более устойчивой и адаптивной платежной системы. В статье рассмотрены положительные и отрицательные аспекты долларизации для стабильности платежной системы. Результаты подчеркивают важность сбалансированных монетарных стратегий для повышения финансовой стабильности в долларизированных экономиках

Ключевые слова: внешний долг; банковский сектор депозитов в иностранной валюте; кредит в иностранной валюте; депозиты в иностранной валюте; инфляция; экономическая стабильность

Долларизациянын төлөм системасынын туруктуулугуна тийгизген таасири

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Аннотация. Долларизация төлөм системасынын туруктуулугун калыптандырууда чечүүчү роль ойнойт, өзгөчө чет элдик валютаны колдонуу деңгээли жогору болгон экономикада. Жогорку долларизация улуттук экономиканын тышкы шокторго, айрыкча валюталык курс өзгөрүүлөрүнө жана ири экономикалардын акча-кредит саясатынын өзгөрүүлөрүнө болгон алсыздыгын күчөтүшү мүмкүн. Бул изилдөөнүн максаты – чет элдик валютаны колдонуу деңгээли жогору экономикада долларизациянын төлөм системасынын туруктуулугуна тийгизген таасирин талдоо болуп, негизги көңүл Кыргыз Республикасындагы банк секторунда долларизациянын төмөндөө динамикасын баалоого жана финансы туруктуулугун чыңдоого өбөлгө түзгөн тең салмактуу акча-кредит саясатын иштеп чыгууга бурулган. Акыркы жылдары Кыргыз Республикасында банк секторунун насыя портфели жана депозиттик базасы боюнча долларизация деңгээлинин туруктуу төмөндөө тенденциясы байкалууда. Бул иште долларизациянын төлөм системасынын туруктуулугуна тийгизген таасири финансы секторунун динамикасына, ликвиддүүлүк тобокелчиликтерине жана акча интервенцияларынын натыйжалуулугуна болгон таасиринин негизинде изилденди. Ошондой эле долларизациянын структуралык кесепеттери, анын ичинде банк операцияларына, инфляцияны көзөмөлдөөгө жана валюталык курс өзгөрүүлөрүнө болгон таасири талданды. Долларизациянын терс таасирлерин жумшарта турган жана туруктуураак, ыңгайлашуучу төлөм системасын түзүүгө көмөктөшө турган саясий чараларга өзгөчө көңүл бурулду. Макалада төлөм системасынын туруктуулугу үчүн долларизациянын оң жана терс жактары каралган. Натыйжалар долларизацияланган экономикада финансы туруктуулугун жогорулатуу үчүн тең салмактуу монетардык стратегиялардын маанилүүлүгүн баса белгилейт

Негизги сөздөр: тышкы карыз; чет элдик валютадагы депозиттери бар банк сектору; чет элдик валютадагы кредит; чет элдик валютадагы депозиттер; инфляция; экономикалык туруктуулук