



THE ROLE OF BANKS IN THE DEVELOPMENT OF THE REAL SECTOR ECONOMY OF UZBEKISTAN

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Article history:	Abstract:
Received: 6 th April 2023 Accepted: 6 th May 2023 Published: 8 th June 2023	The article examines the role of the banking sector in the development of some sectors of the real sector of the economy of Uzbekistan. The role of the functioning of the banking sector and its capabilities are determined. The influence of commercial banks' activities on the innovative development of some branches of the real sector of the economy is analyzed. And also developed proposals and recommendations on the integration prerequisites of commercial banks and their support of the real sector.

Keywords: commercial banks, loan portfolio, real sector of economy, integration of banking and real sector, innovations, risks, insurance, liquidity, profitability, banking system, lending, financing, interest rate, deposits, national currency, forms of financial support.

1. INTRODUCTION

The economic growth of the country and its regions in modern conditions cannot be achieved without attracting bank capital to the real sector of the economy. The bank capital is entrusted with the function of transforming the savings of the population, industrial and commercial capital into domestic investment. At the same time, these resources are being transformed in terms of time, since banks attract short-term resources and issue loans for a long time.

In the world, much attention is paid to the scientific direction of the formation of integrated structures and the improvement of the methodological and practical foundations of their activities by strengthening the integration of the banking and real sector. Scientific research is carried out on issues of increasing the stability and international competitiveness of the economy through the formation of highly integrated structures based on the integration of banking and industrial capital, effective organization of corporate governance in integrated structures, ensuring the liquidity of the banking system based on strengthening the integration of the banking and real sectors, increasing the innovative potential of manufacturing sectors.

According to the World Bank report, "problem loans in the banking system of Western countries are: Belgium – 5.69 percent, Poland – 3.86 percent, Germany – 4.59 percent, Italy – 4.46 percent, France – 2.71 percent, Great Britain and the USA – 1.28 percent" [1]. The high weight of problem loans in the banking sector, the increase in the level of risk in the banking system, the volume of credit deposits of commercial banks and the increase in the share of

long-term loans in the loan portfolio indicate a growing demand for financial resources in the real sector of the economy. This requires strengthening the integration of banking and industrial capital, the formation of highly integrated corporate structures, and improving the efficiency of the corporate governance system.

Uzbekistan is consistently implementing economic reforms aimed at: improving the financial stability of the banking system and industrial sectors; developing industrial production; strengthening mutual integration of commercial banks and industrial enterprises; arming enterprises with modern technologies by increasing the volume of investments directed to the real sector of the economy; ensuring sustainable economic growth. In order to further intensify reforms in this direction, the Development Strategy of the New Uzbekistan for 2022-2026 provides for "An increase in industrial production by 1.4 times by continuing industrial policy aimed at ensuring the sustainability of the national economy and increasing the share of industry in the gross domestic product" [2]. Effective implementation of these tasks, in particular, the development of industrial production based on equipping enterprises with modern technologies, achieving sustainable economic growth require large financial resources, and for a positive solution to these issues, it is desirable to strengthen mutual integration between the bank and the real sector. Strengthening the integration of the bank and the real sector has a positive effect not only on the activation of investment processes, but also on improving the competitiveness of the national economy. The implementation of the above tasks requires the improvement of scientific and



methodological foundations for strengthening the integration of the banking and real sectors of the economy of Uzbekistan.

2. LITERATURE REVIEW

Representatives of famous economic schools: I. Schumpeter [3], J. Robinson [4], M. Pagano [5] and others studied the influence of the banking system on economic integration processes abroad. Methodological and applied aspects of the integration relationship between the banking sector and the branches of the real sector of the economy and individual countries are considered in the works of R.Goldsmith [6], R.McKinnon [7], E.Shaw [8], V.Zavody [9] and others.

The issues of effective functioning of the banking sector in the Republic of Uzbekistan are analyzed in the works of domestic scientists-specialists: Sh.Abdullayev [10], T.Bobokulov [11], A.Vakhabov [12], A.Omonov [13] and others.

Nevertheless, despite the detailed elaboration of certain issues, ambiguity remains in the interpretation of a number of provisions related to the disclosure of the content of interaction between the banking and real sectors at the macroeconomic level and the need for an integrated approach to studying the relationship between the processes of initiation, organization and implementation of promising forms of interaction in the context of ensuring sustainable positive macroeconomic effects.

3. RESEARCH METHODOLOG

Methods of grouping, comparative and economic analysis, induction and deduction, economic and statistical methods and expert assessment were widely used in the research

4. ANALYSIS AND RESULTS

Currently, among the problems characteristic of the national economy, the task of overcoming the weak influence of bank capital on the development of the real sector of the economy is urgent. Solving this problem will allow not only to increase economic growth in the country, but also to develop the right strategy for the development of banking, banking services to potential and real customers, integration of banking and industrial capital in order to stabilize the economic situation of Uzbekistan.

Banks are an integral part of the modern monetary economy, their activities are closely related to the needs of reproduction. They are at the center of economic life, serving the interests of

producers, linking industry and trade, agriculture and the population with a cash flow. All over the world, banks have considerable power and influence, they dispose of huge monetary capital flocking to them from enterprises and firms, from merchants and farmers, from the state and private individuals. In essence, the banking system is the heart of the economic organism of any country. Revealing the role of banks in the economy, from a practical point of view, the following questions are also important: does the bank act as a spectator of the processes taking place through it; does it transfer existing capital or create new ones; does it redistribute funds or create new ones: are these new funds and capitals the result of the work of a loan or a bank managing credit operations.

Bank capital is based on the use of macroeconomic and microeconomic positions in determining its content. From a microeconomic point of view, the monetary capital held in the bank must be considered from the position of ownership, that is, to allocate equity and borrowed, attracted, which are invested in the creation or acquisition of real or financial assets in order to extract income. From a macroeconomic point of view, bank capital should be understood as the total capital of banks, unclassified depending on the sources of formation, and considered as wholly owned by the bank (this interpretation is appropriate based on the provisions of banking legislation on the temporary transfer of the right to dispose of borrowed funds to the bank on the terms of payment, urgency and repayment). In this regard, the directions and methods of applying bank capital to meet the financial needs of the economy in its branches and in specific objects of its application are becoming relevant. Since bank capital is a dynamic category, factors such as the phase of the economic cycle (crisis, depression, recovery), the degree of competition, budget and tax policy, inflation and others affect its dynamics. Therefore, due to the interconnectedness of macroeconomic categories with bank capital, the latter must be studied in a broader sense. The income received as a result of the effective application of bank capital in the macroeconomic context is not money produced by the bank as a commodity, but there is a profit from banking activities. In the course of the study, it was found out that money capital for banks is a necessary condition for the existence and implementation of banking activities and is a means of production. Banking service as a bank's activity in meeting the financial needs of its real and potential customers when conducting banking operations and receiving

banking products by customers, within the framework of the legally established functions of commercial banks.

In accordance with the above category of "bank capital", its direct and indirect impact on the

economy can be distinguished, determined by the type of participation of commercial banks in meeting the financial needs of the economy (Fig. 1).

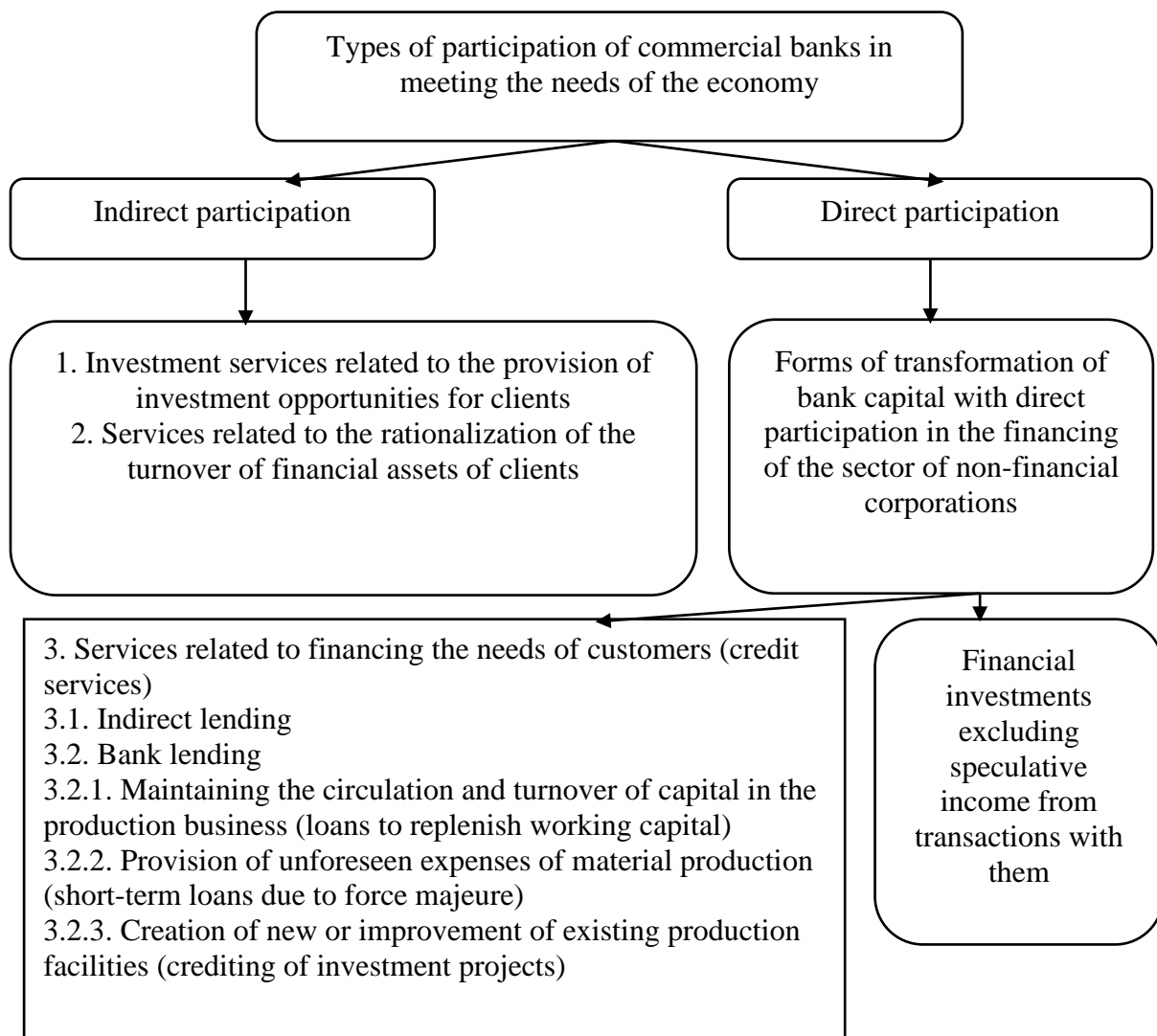


Figure 1 - The scheme of participation of bank capital in the financing of the economy
(Compiled by the author)

The direct participation of bank capital in the financing of the economy is carried out through banking services related to the financing of customer needs (credit services). It is advisable to distinguish two forms of transformation of bank capital with its direct participation in the financing of the economy (bank lending and financial

investments), which are qualitatively different from each other. The indirect participation of banks in this process covers banking services related to the provision of investment opportunities for clients (investment services) and services related to the rationalization of the turnover of financial assets of clients.



From a macroeconomic point of view, banking capital in a market economy should be considered as the main source of investment that affects the growth of industrial production, increases the volume of GDP produced and, consequently, increases economic growth in the country. The problems of attracting bank capital to finance the real sector of the economy require a comprehensive analysis of the conditions affecting both the activities of credit institutions and

enterprises.

As of January 1, 2022, 33 commercial banks operate in Uzbekistan, 12 of them are banks with a state share. In 2021, the GDP indicator amounted to 734,587.7 billion soums, the ratio of total bank assets to GDP was 60.6 percent, the ratio of credit investments was 44.4 percent, the ratio of deposits was 21.3 percent. The total bank capital is 9.7 percent of GDP. (Table 1).

Table 1 - The ratio of indicators of the banking system to GDP [14]

Indicators	01.01.2021 year	01.01.2022 year
GDP (annual, billion sum)	602 193,0	734 587,7
The bank's assets (billion sum)	366 121,1	444 922,5
The ratio of GDP to assets, as a percentage	60,8	60,6
Credit investments (billion sum)	276 974,8	326 358,6
The ratio of credit investments to GDP, as a percentage	46,0	44,4
Deposits (billion sum)	114 746,9	156 189,8
The ratio of deposits to GDP, as a percentage	19,1	21,3
Capital (billion amounts)	58 351,3	70 917,6
Capital to GDP ratio, as a percentage	9,7	9,7

In 2021, along with the growth of banking sector assets, the deposit base of banks also significantly strengthened. Thus, the dynamics of the growth of the deposit base of banks has shown itself to be high in relation to the growth rates of other key indicators of the banking sector. In 2021, the total volume of deposits in commercial banks increased by 36 percent compared to the same period and amounted to 156.2 trillion. soums. At the end of 2021, the total capital of the banking system increased by 21 percent and amounted to

70.9 trillion. soums.

Strengthening the bank's resource base through deposits from enterprises is one of the most important tools to ensure the financial stability and development of the bank. The Bank attracts deposits from businesses in order to gain access to additional funds for lending to other customers and investing in various assets. Interest rates on deposits depend on many factors, such as the economic situation, inflation, policy of the Central Bank of the Republic of Uzbekistan, etc. (Fig. 2).

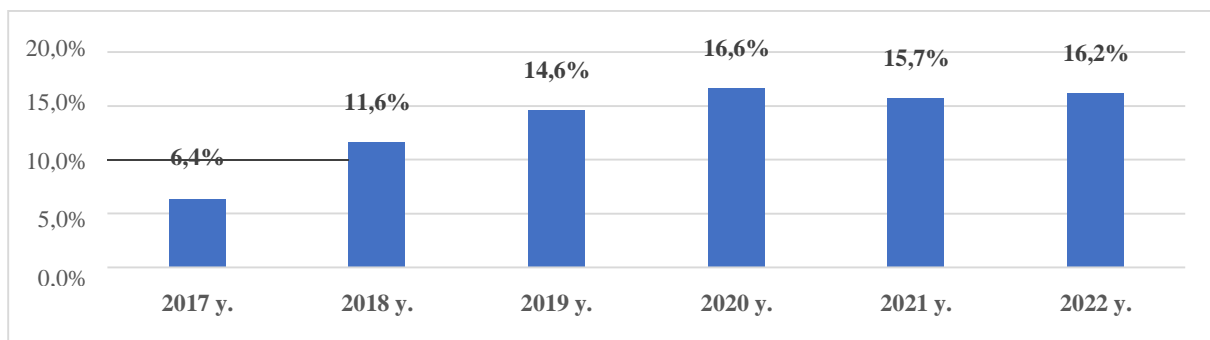


Fig. 2. Changes in the interest rate of bank deposits for real sector enterprises [15]

Analysis of bank interest rates on deposits in national currency at the beginning of the financial

year shows the following trends: weighted average interest rates on term bank deposits for real sector

enterprises increased significantly from 2017 to 2021, peaking in 2020 (16.6 percent) and slightly decreased in 2021 (to 15.7 percent).

The general trend in interest rates on deposits in national currency at the beginning of the financial year shows an increase in rates in the period from 2017 to 2020, and then a decrease in 2021, probably caused by the general trend of lowering interest rates in the market.

Most of the financial support for the real sector is directed from the banks of Uzbekistan with a state share. As of 2020, the amount of credit transactions for real sector enterprises amounted to 260 712 billion soums, with banks with state participation – 230 586 billion soums, with other banks – 30 126 billion soums, the share of banks with state participation was 88.5 percent, and other banks – 11.5 percent (Fig. 3.)

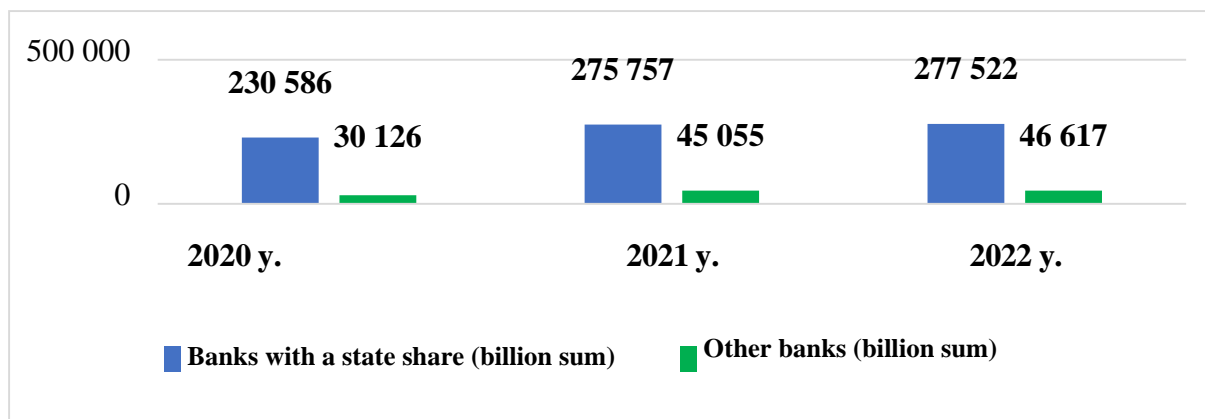


Fig. 3. Financial support of enterprises of the real sector of the economy of Uzbekistan [16]

By 2021, the amount of credit transactions increased to 320,812 billion soums, with banks with state participation – 275,757 billion soums, with other banks – 45,055 billion soums, the share of banks with state participation was 86.0 percent, and other banks – 14.0 percent. At the beginning of 2022, the amount of loan transactions amounted to 324,139 billion soums, by banks with state participation – 277,522 billion soums, with private commercial banks – 46,617 billion soums. The share of the loan portfolio in the structure of banking sector assets decreased from 75.7 percent in 2020 to 73.4 percent in 2021.

The share of lending in industry (including manufacturing) decreased from 38.80 percent in January 2018 – this may indicate that the industry as a whole is growing, but not as fast as other sectors of the economy, such as agriculture. The share of lending in agriculture also increased from 8.0 percent in January 2018 to 10.9 percent in January 2022. An increase in the share of lending in agriculture may be a good sign for the development of this industry, but a decrease in the share of lending in industry may raise concerns about the sustainability of the economy as a whole.

Table 3 - Forms of financial support for the real sector of Uzbekistan [17]

Indicators	01. 01. 2018 y.	01. 01. 2019 y.	01. 01. 2020 y.	01. 01. 2021 y.	01. 01. 2022 y.
Total (in billion soums)	134 616	209 020	211 581	260 712	327 180
Other forms of credit (in billion soums)	17 271	33 013	39 934	51 465	70 982
Loans to enterprises of the real sector of the economy (in billion soums)	117 345	176 007	171 647	209 246	256 198



Changes to the previous year as a percentage	+ 22,1	+ 50,1	- 2,5	+ 21,9	+ 22,5
Loans to real sector enterprises					
Loans allocated to legal entities that are not credit institutions (in billion soums)	618	1 397	158 33	204 48	238 07
Microcredits (in billion soums)	6 725	8 748	9 211	10 774	10 124
Syndicated loans (in billion soums)	659	962	2 238	3 125	4 394
Loans under government programs. Interbank loan (in billion soums)	107 599	162 724	1 597	1 728	1 452
Leasing and factoring (in billion soums)	1 744	2 177	2 225	2 546	2 156

Loans allocated to legal entities that are not credit institutions increased significantly from 618 billion soums in 2018 to 2,380 billion soums in 2022. This indicates an increase in lending to enterprises not only through banks, but also through other organizations

5. CONCLUSION

The macroeconomic situation in the country has a significant impact on the development of the banking system. In order to maintain effective operations in a competitive environment, the bank needs to improve the products and services offered to customers.

The globalization of financial markets aims at the need to operate in a single cybernetic space, having access to markets in real time, and this is possible only with the development of IT technologies and their integration with banking. Currently, Internet banking is one of the most important attributes that allows banks to successfully compete in the market and improve the efficiency of their activities. The bank should have the maximum possible amount of information about the client, be able to analyze it and use it rationally in its activities, for example, for cross-selling additional products or increasing loyalty.

The client-oriented approach implies the emergence of innovative valuation models for evaluating clients, which can increase the level of credit decision-making. The development of information technologies has led to an increase in the efficiency of most banks as a result of the application of the model of remote customer service through Internet banking, mobile banking, external services, etc.

Thus, among the main trends in the development of banking innovations, first of all, it is necessary to note the shift in emphasis from the price and quantitative characteristics of financial products to the characteristics of service and quality, such as an individual approach to the client, speed and quality during his service. Banks should develop such packages of services that differ in the volume of transactions, content and tariffs, which maximally takes into account the interests of each individual group of customers, especially for lending to small business customers.

To expand market opportunities, banks should apply the following measures:

1. Introduce mixed credit and deposit products;
2. Develop various small business lending programs, including those providing for a reduction in loan rates;
3. Apply products focused on the accumulation of a down payment on a mortgage;
4. In order to develop an innovative form of integration interaction between the banking and real sectors of the economy, focused on reducing the limiting effect of the problematic node "risks", we propose to introduce a model of a financial and industrial cluster. This will increase the number of specialized cluster associations and the volume of venture investment against the background of a stimulating policy towards priority sectors of agro-industrial complexes, including within the framework of implementation.

5. Within the framework of strengthening integration, optimize conditions and interest rates on existing banking products for the real sector, in



particular: loans for production equipment, loans for working capital replenishment, office loans, industrial and commercial mortgages.

6. Participate in the financing of investments in fixed assets, primarily this is expressed in investment lending. Recently, the loan portfolio of commercial banks indicates the growing dynamics of loans provided by banks to organizations, as well as the formation of a trend of growth in long-term lending by banks to the real sector of the economy.

In conclusion, the above conclusions and proposals will strengthen the resource base of the banking sector and increase the power of enterprises in the real sector, reduce various kinds of risks and achieve a high level of profitability through strengthening the integration of sectors.

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