



WAYS TO INCREASE THE EFFICIENCY OF INTEGRATING THE BANKING SYSTEM WITH THE REAL SECTOR OF THE ECONOMY

Ilnur Suleymanov

Acting Associate Professor of the Department of Finance and Credit Tashkent institute of Finance, Uzbekistan

ABSTRACT

This article examines the possibilities of increasing the effectiveness of the integration of the banking system with the real sector of the economy in the national economy, the issues of proper and effective management of financial resources between the banking system and the modern structure of real sector integration. Integration between the bank and the real sector The promising areas of development aimed at further diversification of the activities of real sector enterprises with large financial resources have been studied. The development status and trends of economic integration processes between banks and the real sector of the economy are analyzed.

KEYWORDS: *banking, real sector, integration, competition, financial resource, trade turnover, financial stability, credit, bond, investor, deposit, savings, issuer, joint stock company, inflation, primary and secondary market, monetary policy. stock exchange, private property, corporate governance, capital market, financial institutions.*

INTRODUCTION

Ensuring the integration of the banking system and the real sector in the national economy will contribute to the development of industry in the country, the development of market relations and the strengthening of the integration process into the world economy.

The integration of the banking system and the real sector is a modern structure of management, the positive aspects of which can be seen in the effective management of financial resources, increasing competitiveness and rational management.

The organization and development of integration processes between the banking and real sectors of the economy are closely linked. This is because the aspiration of the participants of the international economy to a higher level, the strengthening of the international division of labor requires increasing the competitiveness of the national economy. Taking into account these aspects, special attention is paid to the development of sectoral areas in the national economy of Uzbekistan to increase the efficiency of the integration process with the banking system and the real sector of the economy.

Integration between the banking and real sectors, which are a type of integrated corporate structures, plays an important role in increasing the production capacity and ensuring its stability in the national economy. Therefore, the formation and acceleration of this economic integration is one of the urgent issues in the scientific study of the practice of developing their activities.

In foreign countries, integration between the banking and real sectors is rapidly developing, operating in the form of highly integrated corporate structures, uniting industrial enterprises in various sectors of the economy, including metallurgy, fuel and energy, chemicals, automotive, electrical engineering.

Integration between the banking and real sectors will continue to pursue promising areas of development aimed at further diversification of the activities of real sector enterprises with large financial resources. Therefore, the integration between modern banking and the real sector occupies a significant place in international trade, and their trade turnover exceeds the GDP of many countries around the world.

MAIN PART

In the Action Strategy for the Development of the Republic of Uzbekistan for 2017-2021 through the transition to a qualitatively new stage aimed at the rapid development of high-tech processing industries, primarily the production of high value-added finished products based on deep processing of local raw materials modernization and diversification of the financial and real sectors have been identified as one of the important directions [1].

The financial stability and resilience of the banking sector is a key condition for the successful



implementation of the planned reforms and strengthening the confidence of businesses and the public in the national banking system.

To achieve the strategic goals of increasing the financial stability of the banking sector, the following measures are planned:

-ensure the mutual reform of the banking system and enterprises with a state share in the real sector of the economy, active participation of banks in the transformation of state-owned enterprises and organizations on a commercial basis, harmonious changes in the real sector and the financial sector to provide;

- Improving the supervision of the banking sector and the introduction of a modern system of risk management in banks;

- Consistent development of the deposit protection system based on international best practices.

- increase the minimum capital requirements for banks, including taking into account the accession of the Republic of Uzbekistan to international economic organizations and the integration of the banking system of the republic into the international financial system;

- Ensuring moderate growth of lending and improving the quality of the loan portfolio.

These measures will strengthen the financial stability of banks:

- International integration of the financial sector based on the principles of banking, including the introduction of advanced international standards in corporate governance and customer service;

-improvement of out-of-court dispute resolution procedures, legislation in the field of bankruptcy, enforcement and other measures of legal protection of banks from dishonest actions of debtors.

- Carrying out an independent assessment of the quality of assets of state-owned banks and taking measures to improve the quality of their loan portfolios, including through practical assistance to idle loans;

- Implementation of comprehensive measures to improve the management of state-owned enterprises, including the development of the most optimal methods of management, financial stability and privatization of these enterprises;

-development of credit bureaus, including through the integration of their databases with information systems of housing and communal services, tax and pension systems.

Effective implementation of these tasks, in particular, equipping enterprises with modern equipment and technologies, the development of industries will require large investments and increase the effectiveness of the integration of the banking system with the real sector of the economy.

To increase the effectiveness of the integration of the banking system and real sector enterprises, it will be necessary to combine bank capital with real sector capital. This will not only stimulate the investment process, but also increase the competitiveness of our economy.

To support sustainable economic development based on increasing the efficiency and continuity of production in the national economy requires a perfectly integrated system, resulting from the establishment of strong links between financial institutions and manufacturing enterprises.

World experience shows that the expansion of the banking system and enterprises of the real sector of the economy, in particular, transnational corporations, transnational banks, international financial centers, plays a significant role in the economic development of countries.

The active participation of the banking system in the investment process plays an important role in modernizing the economy and strengthening the capacity of the country's real sector enterprises.

One of the key issues in strengthening the economic stability of the country is, first of all, the structural transformation of sectors and industries of the economy and the strengthening of the integration of the banking system and capital of real sector enterprises. It should be noted that we need not only to accelerate the implementation of investment projects by enterprises, but also to what extent commercial banks are interested in them and how actively they participate in these projects with their credit resources.

In accordance with the Decree of the President of the Republic of Uzbekistan "On the Development Strategy of the New Uzbekistan for 2022-2026" dated January 28, 2022 No. PF-60, "Production and operational In order to increase the level of digitization of processes to 70% by the end of 2026, to increase financial resources in the economy, to increase the stock market turnover from \$ 200 million to \$ 7 billion in the next 5 years, to gradually liberalize capital movements in the country.), including privatization through the stock exchange, completion of the transformation process in state-owned commercial banks, bringing the share of the private sector in bank assets to 60% by the end of 2026 "[2].

The transformation of commercial banks into large investment institutions, in turn, will create a favorable environment for the integration of the banking system and the capital of real sector enterprises.

In the context of globalization of the world economy, it is necessary to ensure a high level of competitiveness of entities operating in the national economy. This requires the formation of corporate structures of the banking system that are highly integrated with the real sector of the economy and increase the efficiency of the corporate governance system.

In his speeches, President Mirziyoyev said, "Our country is pursuing an active investment policy to



develop the economy and infrastructure, to finance current projects. Since 2017, 716 trillion soums (\$ 83 billion) have been disbursed from all sources, or more than twice as much as in the previous period. Of that, about \$ 27 billion came from abroad. Almost 65% of the investments are in the real sector. As a result, over the past four years, the share of real sector enterprises in the country's GDP has grown from 25% to 33%, and industrial production has increased 1.3 times. "[3] Naturally, the role of banks and other financial institutions in accelerating economic development is enormous. We know very well that there is no industry without banks, there are no exports without banks. In this regard, ensuring sustainable economic growth through the effective organization of the resource base of real sector enterprises through the financial resources of the banking system is a priority.

As of January 1, 2020, the volume of bonds issued by issuers of corporate bonds amounted to 198.06 billion. In particular, the share of commercial banks in the bond market is 74.8%, while commercial banks are the leaders in the practice of issuing corporate bonds in the stock market of Uzbekistan. As other issuers, Uzavtosanoat is the sole issuer, accounting for 25.2% of the total bond market.

Table 1
Information on corporate bonds in the financial and real sectors of the economy [4]

(As of January 1, 2020)

№	Issuers of corporate bonds	Issue volume of bonds (billion soums)	Number of bonds (million units)
	Total:	198,06	0,50
Including:			
	Financial sector:	148,06	0,45
1.	FEA National Bank	100,00	0,10
2.	Industrial Construction Bank of Uzbekistan	43,06	0,34
3.	Kapitalbank ATB	5,00	0,01
	Real sector:	50,00	0,05
4.	JSC "Uzavtosanoat"	50,00	0,05

One of the priorities of the reforms being carried out in the country is the further improvement of the investment climate in corporate structures, increasing the efficiency of joint-stock companies, and developing a concept for innovative development of enterprises. A number of joint-stock companies in Uzbekistan were created on the basis of state enterprises and have their own material and technical base, fixed and working capital. Most JSCs are real enterprises.

In order to modernize production facilities in the country, technical and technological equipment of basic industries, further increase their export potential, create favorable conditions for the competitiveness of products, as well as increase the investment attractiveness of enterprises, the state or economic authorities The normative documents also stipulate that the transfer of shares to investment managers in the prescribed manner on a competitive basis for a period of up to 5 years [5].

Models of state regulation of the securities market in foreign countries, the organizational framework and the possibility of their application in the context of Uzbekistan, control is an important tool for state regulation of the stock market. Therefore, there are currently more than 400 joint-stock companies operating in Uzbekistan to establish modern methods of corporate governance [6]. Based on the tasks set in the Action Strategy for the five priority areas of development of the Republic of Uzbekistan for 2017-2021 to reduce state participation in the economy [7], the development of innovative concepts of corporate structures in the development of the real sector of the economy is becoming urgent.

The formation of the banking system and real sector enterprises in the country will further stabilize economic growth, increase the investment activity of commercial banks and develop the real sector of the economy, create new types of competitive products and, most importantly, create new jobs in the regions. through which it further enhances the living standards of the population. Ensuring the integration of the banking system and real sector enterprises and the development of their activities is one of the most pressing issues. We know that the Decree of the President of the Republic of Uzbekistan dated September 2, 2017 No PF-5177 "On priority measures to liberalize foreign exchange policy" priorities of state economic policy in the field of foreign exchange policy liberalization and as a result of the liberalization of monetary policy, from September 5, 2017, the national currency - the soum - was almost twice devalued against the US dollar.

As a result, the following problems occurred:

- a sharp increase in costs associated with the repayment of bank loans from foreign currencies (due to a sharp rise in the exchange rate).

- Difficulties in the payment of imports by enterprises of the real sector of the economy (due to a sharp rise in the exchange rate);

As a result, according to forecasts, the volume of imports will decrease and the probability of non-repayment of foreign currency loans will increase. However, despite the sharp devaluation in practice, the volume of imports has shown a steady growth trend. The main problems are:

- the foreign exchange market is not fully secured with stable liquidity;
- Export-import operations were carried out under strict control until an open policy was pursued;
- Extremely slow process of conducting foreign exchange transactions.

As a result of the liberalization of monetary policy in September 2017 and the free movement of the national currency, there have been significant changes in the development of the banking sector over the past 4 years. In particular, as of January 1, 2021, the assets of commercial banks amounted to 366.1 trillion. soums and increased by 120% compared to 2017. During this period, the average annual real growth (excluding devaluation) was 24.1%. As of January 1, 2021, the balance given to the economy is \$ 277 trillion. soums, which is 30.9% more than in 2019 and 150% more than in 2017 [8].

The common goal of all participants (parties) in corporate governance is to make a profit on the basis of the law, which is achieved by each party through the performance of specific, but different, duties and functions, rights and obligations.

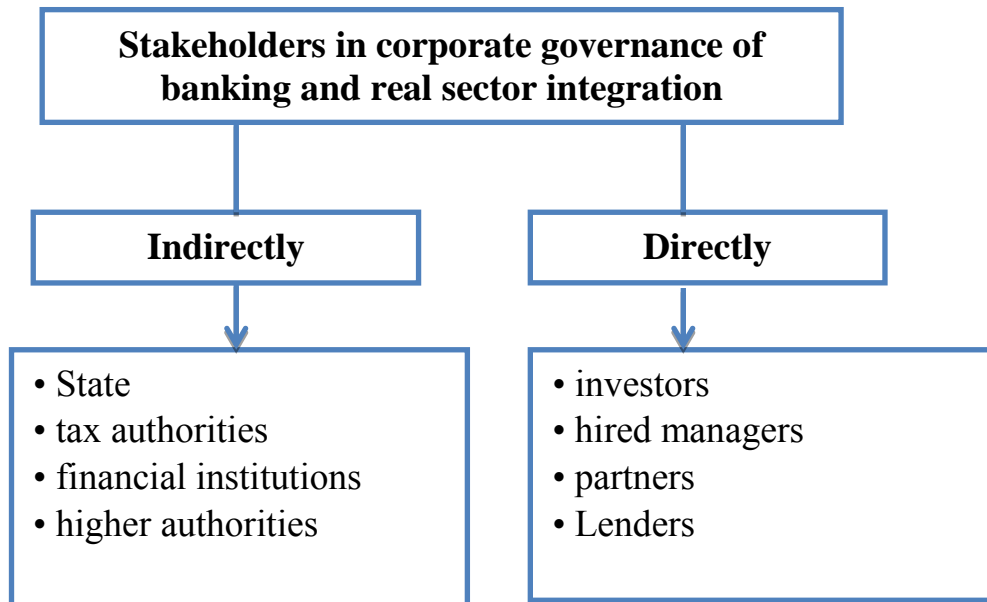


Figure 1: Stakeholders in corporate governance in banking and real sector integration [9]

Because corporate interests are a cause-and-effect relationship based on mutual competition, they are subject to systemicity and order.

The competition is between property owners, within staff, other partners of the company, and so on. can be seen between stakeholders. It provides equal opportunities for all parties to the corporate governance environment.

Systematic and orderly corporate governance is determined by the fact that it operates in an orderly and transparent manner in accordance with the whole economic and legal system and the established norms of corporate law and culture.

While stock acquisition is generally an effective way to connect owners and managers, in corporate practice, the following are important areas that need to be addressed:

- First, there should be limits on managers' ability to buy shares;
- second, the existence of control over the activities of corporate managers and, as such control, the emergence of the corporation's board of directors in the corporate governance system.

As a recognized mechanism of internal control over the activities of corporate management, shareholders are involved in the involvement of agents with certain supervisory powers to protect their interests. They are not corporate employees, so they are called "external directors," or "independent directors," or "outsiders."

It is assumed that the members of the Board of Directors are not directly dependent on the operational management and thus protect the interests of the owners.



There are two conflicting hypotheses about the ratio of rewards that senior managers and other employees should receive.

The first hypothesis is that the incentive scale should be strictly progressive, which is important for the CEO's bonus to serve as an incentive for other employees.

Supporters of the second hypothesis argue that this approach is inefficient, because, firstly, most employees know that they will never be able to become CEO, and secondly, the desire to somehow move up the career ladder reduces economic efficiency. Proponents of the second hypothesis argue that a weak progressive scale is a more acceptable option.

Granting stock options as a bonus to managers has until recently been viewed as an incentive to tie the interests of owners and managers.

Theoretically, larger incentives are an effective tool to stimulate the work of managers, but in practice, insignificant changes in the value of corporate shares can also bring significant benefits to corporate managers. If the preference includes the possibility of revaluation of options in the event of a fall in the value of the share price, it will result in the omission of all risks. The second and most important problem is the relationship between the value of the corporation's share price and the quality of management.

In conclusion, it should be noted that the corporate governance system is a complex system, and ensuring its effective functioning is one of the most important issues facing corporate governance.

The process of establishing large corporate structures has affected not only industrialized countries but also developing ones. In these countries, the process of merging banking and industrial capital continues. For example, the development of the banking and real sector in Russia differs significantly from foreign models. The main differences are:

- Weak or non-existent capital integration between enterprises belonging to the same financial-industrial group.
- imperfect corporate structure mechanisms.

In any case, the law on financial-industrial groups does not allow for weak mutual ownership.

Table 2
Integration of Russian banks with major industrial groups [10]

Bank	Bank-owned group	The group's industrial enterprise
Gazprombank	Gazprom	Gazprom
Rosbank	Interros	Noril Nikeli
BIN-Bank	RusNeft	RusNeft trading companies
Surgutneftgazbank	Surgutneftgaz	Surgutneftgaz

Banks play a significant role in the integration of the banking and real sectors of the Russian economy. Sometimes they are at the center of group organization and management. Banks also often act as advisors and partners with sufficient knowledge.

In general, the integration of the banking and real sectors is characterized by the fact that all groups are widely diversified and cover key sectors of the economy. Also, in the integration of the banking and real sector, the groups control a large enough part of the country's economic potential and resources, covering various sectors of the economy.

Improving the business environment in many countries is to broaden and actively attract free funds of the population and investors to the national economy, thus reducing the dependence of real sector enterprises on state guarantees and bank loans, as well as state participation in the economy. However, problems such as a lack of resources to finance investment to ensure economic growth and the lack of mechanisms to convert the population's free money into investments are hampering the recovery from the economic crisis caused by the pandemic.

CONCLUSION

Based on the above, it can be concluded that foreign countries have a high level of experience in developing the banking system and capital integration of real sector enterprises.

The organizational structure and operation of highly integrated corporate structures have similar characteristics in some countries, as well as some differences. They are to some extent related to the specifics of economic development of countries, strategic directions of economic development, and are closely related to the level of development of the market and modern economic conditions. The activities of financial institutions, in particular, banks, are an integral part of strengthening the integration of the foreign banking system and the capital of real sector enterprises. The share of bank capital in the integration of the banking system and the



capital of real sector enterprises is high. Such integration of banking and industry, in turn, creates favorable conditions for the development of core business.

The relationship between banks and enterprises is characterized by multifaceted financial relationships: mutual ownership of shares, preferential financing of corporation members, technical cooperation, personal relationships, and more. The study of foreign experience in the formation and development of the capital integration of the banking system and real sector enterprises allowed to distinguish the following important aspects of the activities of these structures:

- In many developed and developing countries, as a result of the integration of the banking system and the capital integration of real sector enterprises, risks are reduced, marketing structures are formed that strengthen and expand market position by forecasting product sales.

- The formation of capital integration of the banking system and real sector enterprises will reduce labor costs in the economy, as the use of scientific and technological advances and the rapid introduction of innovative projects will accelerate the creation and marketing of new products within the structure.

- Strengthening the integration of the banking system and the capital of real sector enterprises, as well as greater access to mutually beneficial credit resources, security, high level of capital movement and acceleration of turnover will reduce financial costs.

- The integration of the banking system and the capital of real sector enterprises will increase the international competitiveness of the national economy and increase the investment potential and profitability of industrial capital.

Based on the world experience of banks and real sector enterprises, it can be concluded that they serve as an effective tool for strengthening integration between financial institutions and industrial enterprises, sustainable development of manufacturing sectors and increasing the country's economic potential. At the same time, the current conditions of globalization indicate the need to develop the integration of the banking system and real sector enterprises in the future to create a production complex with the potential to take a large and strong position in national and global markets.

REFERENCES

1. Decree of the President of the Republic of Uzbekistan "On the Action Strategy for further development of the Republic of Uzbekistan". No. PF-4947, February 7, 2017. - Collection of Legislation of the Republic of Uzbekistan. 2017, No. 6, Article 70.
2. Decree of the President of the Republic of Uzbekistan No. PF-60 of January 28, 2022 "On the Development Strategy of New Uzbekistan for 2022-2026".
3. Meeting of the President of the Republic of Uzbekistan Shavkat Mirziyoyev on 25.06.2021 "Performance in the field of investment and exports." <https://president.uz/uz/lists/view/4449>.
4. deponet.uz. prepared by the author on the basis of data from the Central Securities Depository.
5. Resolution of the President of the Republic of Uzbekistan dated December 25, 2018 No 4077 "On measures to accelerate the process of modernization of production facilities, technical and technological re-equipment of industrial sectors." National Database of Legislation, April 16, 2020, No. 07/20/4678/0440
6. Sherali Sultonov. Directions of state regulation of the stock market. EPRA International Journal of Economic Growth and Environmental Issues - Peer Reviewed Journal. Volume: 9 | Issue: 2 | February 2021 | Journal DOI : 10.36713/epra0713 | SJIF Impact Factor (2021): 8.047
7. Decree of the President of the Republic of Uzbekistan No. PF-4947 of February 7, 2017 "On the Action Strategy for the further development of the Republic of Uzbekistan."
8. <https://review.uz/oz/post/obzor-dinamiki-razvitiya-finansovo-bankovskogo-sektora-uzbekistana-za-2017-2020-god>
9. Compiled by the author.
10. Alekhin S.V. Financial and industrial groups in the Russian economy: characteristics and types // Bulletin of the Volga University named after V.N. Tatishcheva, (2014) No. 1. (30). - p. 8-10.
11. Karimova G.A., Kobulov Kh.A. Types of digital services of banks and issues of increasing their popularity // Internauka: electron. scientific legal - 2021. - T. 45. - No. 190. - S. 76-77.
12. Isroilova Yu.R., Kobulov Kh.A. The value of using international forms of accounting in the development of foreign economic activity // Science and education. - 2022. - Vol. 3. - No. 1. - p. 1068-1072.