

THE ROLE OF THE FINANCIAL SYSTEM IN ENHANCING THE INVESTMENT CLIMATE

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Abstract. *This article highlights the role and importance of the financial system in improving the investment climate. The article analyzes the impact of the banking system, financial markets, and state financial policy, which are the main components of the financial system, on investment processes. The article substantiates that the availability of financial resources, their effective distribution, and the stable functioning of the financial system are important factors in the formation of the investment climate. It also indicates the mechanisms for supporting investment processes through the financial system and the need to improve them.*

Keywords: *investment climate, financial system, banking sector, financial markets, investment attractiveness, financial stability, financial policy.*

Introduction. The financial system is one of the main mechanisms ensuring the sustainable development of the economy, which directly affects the formation and activity of investment processes. In particular, the banking system, financial markets and state financial policy, which are the main links of the financial system, play an important role in the formation, distribution and effective direction of investment resources. The integrated activity of these links serves to increase the attractiveness of the investment environment [1]. The banking system occupies a leading position in investment processes, as it is the main means of accumulating free cash in the economy and directing it to investment. Commercial banks form credit resources by attracting deposits from the population and business entities and direct these resources to real sector enterprises. The development of long-term lending mechanisms allows expanding production capacities, financing new projects and accelerating technological innovation. The stability and liquidity of the banking system are an important factor of confidence for investors, and easy access to credit resources significantly increases investment activity.

Financial markets are also an important component of investment processes. Through the capital market, securities market and foreign exchange market, financial resources are redistributed and directed to productive sectors of the economy. The stock and bond markets provide enterprises with alternative sources of financing in addition to bank loans. This serves to diversify investment sources, reduce financial risks and increase capital mobility. In countries with developed financial markets, investment processes are carried out mainly through market mechanisms, which ensures the efficient allocation of investment resources.

State financial policy is one of the decisive factors in the formation of the investment climate [2]. The budget and tax policy, state investment programs and financial incentive mechanisms carried out by the state have a direct impact on investment processes. Tax incentives, subsidies and state guarantees create additional incentives for investors, leading to an increase in the volume of capital investments. At the same time, the state's provision of financial discipline, budget stability and rational management of public debt have a positive impact on the investment climate. The interaction between the banking system, financial markets and state financial policy is an important condition determining the effectiveness of investment processes. If there is a balance and cooperation between these links, investment resources are rationally distributed across sectors of the economy. On the contrary, imbalances in the financial system can lead to a decrease in investment activity and a weakening of investor confidence. The formation and development of the investment climate occurs as a result of the interaction of many economic factors. The availability of financial resources, their effective distribution across sectors of the economy, and the stable functioning of the financial system are crucial in this process. It is these factors that create an atmosphere of trust among investors, determine the volume and direction of capital investments, and create the necessary conditions for long-term economic growth.

The availability of sufficient financial resources is one of the main conditions for the investment climate. The high volume of savings in the economy, the attraction of free funds of the population and enterprises through the financial system expand investment opportunities. In conditions of a shortage of financial resources, even economically viable projects may not be implemented. Therefore, the breadth of the financial resource base is of great importance for the modernization of production capacities, the development of infrastructure, and the financing of innovative projects. The attractiveness of the investment climate is largely determined by the continuous circulation of capital resources [3]. However, the availability of financial resources in itself does not give a positive result. Their effective distribution across sectors of the economy ensures a qualitative improvement in the investment climate. Effective distribution is understood as the direction of financial resources to areas and projects that bring the highest economic efficiency. If financial resources are concentrated in areas with low efficiency, investment processes slow down and economic growth rates decrease. From this point of view, the allocation of resources through the financial system on a selective basis, taking into account the ratio of risk and profitability, is an important mechanism in shaping the investment climate. The stable functioning of the financial system is one of the main factors determining the reliability of the investment climate. A stable financial system creates a predictable and relatively low-risk environment for investors. Disruptions in the banking system and financial markets, liquidity problems or financial crises can lead to a sharp decline in investment activity. Therefore, the stability of the financial system serves as an important signal not only for domestic investors, but also for foreign investors. A stable financial system ensures the continuity of capital movements and guarantees the continuity of investment processes.

The effective allocation of financial resources and the stability of the financial system are closely related processes. A stable financial system allows for the rational use of available resources, and effective allocation serves to strengthen the financial system. This interdependence increases the quality indicators of the investment environment and ensures a stable growth in the

volume of capital investments in the economy. As a result, the process of making investment decisions is simplified and investors' long-term planning opportunities are expanded. It is worth noting that the effectiveness of financial resources and the financial system is also directly related to the institutional framework of the investment environment. In conditions of financial transparency, accountability and clear rules, the financial system fully fulfills its functions [4].

This serves to strengthen stability and confidence in the investment environment. On the contrary, institutional weaknesses lead to improper allocation of financial resources and increased investment risks. In general, the availability of financial resources, their effective distribution and the stable functioning of the financial system are important complementary factors in the formation of the investment climate. The combination of these factors creates a solid foundation for increasing investment activity in the economy, expanding production potential and ensuring sustainable economic growth.

The financial system serves as the main tool for supporting investment processes in a modern economy [5]. Investment activity is an important indicator of economic growth and stability, therefore, the need for effective targeting of available resources through the financial system and their distribution on a project basis is increasing. The financial system provides various mechanisms for supporting investment processes, which creates additional incentives for enterprises and other economic entities.

First, the banking system is the most important tool in supporting investment processes.

Through commercial banks and investment banks, enterprises have the opportunity to obtain short- and long-term loans. These loans are used to finance new production projects, implement technological innovations, and develop infrastructure projects. At the same time, banks create additional support mechanisms by providing financial advice to enterprises, assessing investment risks, and adjusting the terms of obtaining loans. For example, bank loans are the main source of financing for expanding production capacity or export-oriented projects.

Secondly, financial markets play an important role in supporting investment processes. The securities market allows enterprises to raise capital by issuing shares and bonds. This reduces dependence on bank loans and allows enterprises to diversify financial resources. Also, the liquidity of the stock market, price transparency, and a variety of financial instrument options allow investors to make investment decisions quickly and efficiently. From this point of view, supporting investment processes through financial markets serves not only to allocate financial resources, but also to reduce risks and ensure the efficient use of capital through market mechanisms.

Thirdly, state financial policy and its mechanisms for supporting investment processes are also of great importance. Tax incentives, subsidies, guaranteed loans and grants provided by the state create additional incentives for investors. These mechanisms serve as an effective tool for attracting investments in new projects and sectors. At the same time, state financial policy creates a safe environment for investors by ensuring economic stability, controlling inflation and interest rates. For example, in developed countries, guarantees and subsidies are widely used in financing long-term state infrastructure projects, which helps to attract private investors.

The mechanisms for supporting investment processes through the financial system must be mutually consistent and effective.

When the efficiency of banks and financial markets is aligned with government policy, investment resources will be directed to the most productive sectors of the economy [6]. At the same time, innovative services of the financial system, such as venture capital, leasing and factoring, provide an opportunity to finance new enterprises and reduce risks. These mechanisms create new sources of economic growth and significantly improve the investment climate. A stable financial system, in turn, ensures the continuity of investment processes. Lack of liquidity, a credit crisis or sharp changes in financial markets reduce investment activity. Therefore, ensuring the stable functioning of the financial system, strengthening the risk assessment system and increasing financial transparency are important tasks. At the same time, a comprehensive and effective allocation of financial resources through cooperation between the public and private sectors increases the attractiveness of the investment climate.

Conclusion. In conclusion, the mechanisms for supporting investment processes through the financial system are of decisive importance in ensuring the sustainable development of the economy and the attractiveness of the investment climate. The harmony between the banking system, financial markets and state financial policy allows for the effective allocation of investment resources, risk reduction and financing of new projects. At the same time, innovative services, transparency and stable functioning of the financial system increase investor confidence and significantly increase investment activity. Therefore, improving and modernizing the mechanisms of the financial system is an important condition for improving the investment climate, increasing economic growth rates and strengthening the competitiveness of the national economy.

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