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## FINANCIAL AND CREDIT SYSTEM IN THE DEVELOPMENT OF THE ECONOMY

**Annotation:** this article talks about the financial and credit mechanisms that contribute to economic development, their functions, convenient ones, as well as obstacles. Economic development is a complex and multifaceted process, and the possibility of obtaining finance and credit is decisive in ensuring economic growth and the growth of social living standards.

**Keywords:** credit, credit system, economic growth, development.

Improving financial and credit mechanisms is a fundamental aspect of promoting economic development in any country. The financial sector plays an important role in ensuring access to capital, managing risks and ensuring economic growth through the efficient allocation of resources. A well-functioning financial system allows enterprises to invest, innovate and expand, thereby creating jobs, improving efficiency and promoting economic growth. However, in many countries, financial and credit mechanisms are underdeveloped, inefficient or even non-existent, hindering economic development and perpetuating poverty. One of the main reasons for the underdevelopment of financial and credit mechanisms is the lack of obtaining loans for small and medium-sized enterprises. Capital is the basis of any economy and constitutes a large part of employment, production and innovation. However, they often have difficulty obtaining loans from traditional banks due to high collateral requirements, complex application procedures, and high interest rates. This limits MU's opportunities to invest in new technologies, expand their activities, and create jobs, as a result of which economic growth is hindered. To solve this problem, governments and financial institutions can carry out various measures to improve financial and credit mechanisms. One approach is to create alternative credit channels such as microfinance organizations, credit unions, and peer lending platforms. These channels can provide an opportunity to obtain a low-cost loan from Capital, which allows them to invest in their businesses and, create jobs. In addition, governments may implement policies such as guarantees, subsidies, or tax incentives to encourage bank lending. Another important problem facing financial and credit mechanisms is the lack of financial inclusion. Many individuals, especially in rural areas, do not have access to basic financial services such as bank accounts, credit and insurance. This excludes them from the formal economy, making them difficult to save, invest, and manage risk. To address this problem, governments and financial institutions can implement financial inclusion strategies such as mobile banking, agent banking, and financial literacy programs. These initiatives can increase access to financial services, allow individuals to participate in the formal economy and contribute to economic growth. In addition, the improvement of financial and credit mechanisms requires the development of a solid credit report system. The credit report system allows creditors to assess the creditworthiness of borrowers, reduces the risk of default, and allows them to make credit decisions. This, in turn, increases the chances of obtaining loans for individuals and enterprises, contributes to economic growth and development. Governments and financial institutions can establish credit bureaus, implement credit scoring systems, and encourage the use of credit reports in credit decisions. Financial mediation and credit allocation: at the heart of economic development lies the effective

distribution of capital. Financial intermediaries such as banks and other financial institutions play an important role in this process. They collect funds from individuals and businesses, consolidate them, and then lend to borrowers who require capital for investment or consumption. This mediation process ensures that funds are directed to the most efficient use, promoting economic growth and innovation. Obtaining a loan and entrepreneurship: the possibility of obtaining a loan is especially important for entrepreneurs who do not have the initial capital necessary to start and develop their own business. Microfinance organizations, specialized credit programs and venture capital firms provide much-needed financial assistance that allows entrepreneurs to contribute to job creation, innovation and diversification of the economy. Investment and infrastructure development: long-term economic development requires significant investment in infrastructure such as roads, bridges and energy networks. Financial and credit mechanisms play an important role in raising the necessary capital for these projects. Development banks, government bonds and public-private partnerships provide the foundation for future economic expansion and fund infrastructure development. Financial inclusion and poverty reduction: Financial Inclusion, which implies the provision of cheap and convenient financial services to all segments of the population, is essential for poverty reduction. By providing access to savings accounts, microcredit and insurance products, financial and credit mechanisms provide individuals and communities with the opportunity to manage their funds, invest in the future and ensure stability against economic shocks. Difficulties and limitations: while financial and credit mechanisms offer enormous opportunities for economic development, they are not without limitations. Financial exclusion, high interest rates, and volatile capital flows can pose significant problems. In addition, weak regulatory framework and corruption can reduce the effectiveness of financial and credit mechanisms, which leads to misallocation of resources and financial instability. According to the finance-growth theory, changes in the quality and quantity of financial systems are critical to expanding the economy. According to Fung and Sadorsky, economic growth comes from financial development through two channels: firstly, the effectiveness of financial systems leads to the accumulation of financial resources for effective use, and secondly, financial liberalization helps to distribute risks by increasing investments and reducing costs. capital, which leads to economic growth. Taking these factors into account, we can argue that financial development leads to inclusive growth through developed socio-economic institutions or economic freedom. Individuals and enterprises have the right to own property in a free economy, and minimum taxes ensure high participation in economic activities. Nevertheless, inclusive growth depends on strong socio-economic institutions (economic freedom) based on effective government, the rule of law, open markets and effective regulation. Consequently, the promotion of Economic Freedom leads to inclusive growth and financial development. Unlike the above, increased taxes and tariffs, strict regulatory oversight, launch support, increased business investment, etc.-perhaps they are not business-supporting policies that promote inclusive growth. Many empirical studies have shown that financial liberalization, part of economic freedom that measures access to credit and capital Markets, is closely related to higher economic growth, less restrictive credit restrictions, and lower volatility of consumer growth for small firms. A well-regulated financial system ensures the safe and robust operation of financial institutions, risk management and protection of depositors' funds. This, in turn, increases confidence in the financial system, attracts investments and stimulates economic growth. Governments can form independent regulatory bodies, enforce prudential regulations, and conduct routine oversight inspections to ensure that financial institutions comply with regulatory requirements. Another important aspect of improving financial and credit mechanisms is the development of capital markets. Capital markets provide a platform for enterprises to attract capital, which allows them

to invest in new projects, expand their activities and create jobs. Governments and financial institutions can set up stock exchanges, implement regulatory frameworks, and help develop bond and securities markets. This increases access to capital for enterprises, contributes to economic growth and development. In an additional way, the improvement of financial and credit mechanisms requires the development of financial literacy and education. Financial literacy allows individuals and businesses to make financial decisions, manage risks, and optimize their financial resources. Governments and financial institutions can implement financial literacy programs, provide financial education and training, and encourage the use of financial planning tools. This, in turn, increases financial inclusion, reduces financial exceptions and promotes economic growth and development.

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