



## THE ROLE OF BANKS IN THE ECONOMY

Nizomova Mehrangiz Jamoliddinzoda

Denau Institute of Pedagogy and Entrepreneurship

2nd Year Student

### Abstract

This article details the role of banks in the economy and the factors that affect their position.

**Keywords:** Bank functions, services, tasks, economic role, trust in them, market mechanism, real sector.

### Introduction

The role of banks in the economy should be focused on their organizing causes, functions, operations and services. The role of banks in the economy has certain characteristics, such as their functions. Banks, regardless of their form of ownership and specialization, perform operations of general importance in the economy and play an important role.

Speaking about the role of banks in the economy, it is appropriate to talk about the need and types of operations that they perform in society, as well as the needs of business and the population. All this points to the importance of banks in the economy.

Of course, the role of banks in the economy is multifaceted, and the main ones are:

- Attracts temporarily free funds in the community on appropriate terms;
- Provides funds to enterprises and the population in need of additional financing on the terms of repayment, payment, urgency and security;
- Organizes the issuance of the national currency and implements monetary policy in the framework of ensuring its stability;
- Organizes the turnover and determines its order;
- Acts as an intermediary in the implementation of settlements and payments between participants in economic relations;
- provides various levels of commission and consulting services to market participants;
- Offers trust and custody services to the public and clients.

One of the main aspects of banks' role in the economy is the redistribution of temporarily free funds in society in the relevant sectors of the economy. It is known that the main purpose of economic entities operating in society is to obtain economic benefits. However, as the production process in different industries varies, in a certain period of time, some business entities need additional financial resources to develop the production process, while others do not. Due to the diversity of the production cycle in different sectors of the economy (agriculture, processing enterprises, the construction industry, etc.), financial resources are temporarily excluded from the production process. In this process, on the one hand, a group of sectors of the economy creates an additional need for additional financial resources, whereas in other sectors of the economy there is a diversion of capital from production.



Banks emerge as a financial institution that combines the economic interests of these two parties. The first group attracts temporarily free funds of the economy on appropriate terms, and the second group redistributes them to the sectors of the economy that need these funds, i.e., to business entities that need additional financial resources.

We believe that no financial institution other than a bank can effectively and quickly resolve these relations. This feature of banks determines their role in the economy.

Another distinguishing feature of banks in the economy is that they organize settlements between enterprises, the population and government agencies and implements appropriate control over them. It is known that in a market economy, hundreds of thousands of money transfers are made daily between enterprises. All these are done and regulated by banks.

There are a number of factors affecting the role of banks in the economy. The main ones are:

a) Strong public and customer confidence in banks. The results of international banking practice and the experience gained during the short period of independence show that the market economy is based on mutual trust and honesty. If we connect this situation with the loss of confidence of the population and customers in banks, then the loss of confidence in banks will lead to a decrease in their role in society.

Weak public and customer confidence in banks can be caused by:

- Non-fulfillment by banks of their obligations to customers in a timely manner;
- The need of the population and customers for loans, especially cash, is not satisfied in full and promptly;
- Banking secrecy is not provided on the balances and turnovers of funds on customer accounts;
- customer money transfers are not transferred to the appropriate address at any time and in the required amount;
- Decreased economic interest in placing funds in a bank, etc.

b) In the country's economy, market mechanisms should be fully and equally applicable. It should be noted that after gaining independence in 1991, we refrained from the bureaucratic methods of centralized management of the economy and switched to market mechanisms for managing the economy. In particular, the fact that commercial banks do not meet the need for cash, especially when lending to enterprises, indicates the relevance of the situation. All these

The increase or decrease in the role of banks in the economy is directly affected not only by their efforts, but also by the level of development and competitiveness of the national economy. This is because banks cannot function effectively as a separate entity without being separated from the national economy. For example, if we consider that one of the main activities of banks is the issuance of money in circulation, then the money supply should be provided with a mass of commodities. Otherwise, as the inflation rate of the national currency grows, its purchasing power will decrease. This means that the money in circulation must be provided with the appropriate mass of goods. This, in turn, requires efficient production and turnover in the economy.



Thus, ensuring a balance between the mass of goods and the mass of money in the economy, firstly, increases the role of the bank in the economy, and secondly, serves to ensure the efficiency of the national economy. However, this balance is influenced by a number of objective and subjective factors. For example, in the late 1990s, the volume of cash flow in Russia, as well as in a number of former Soviet republics, including our country, significantly decreased in relation to the volume of production. As a result, there were interruptions in the production process, as well as a significant increase in the amount of receivables and payables between enterprises.

The influence of banks on the country's economy, that is, their role, can be seen in the example of real sector lending. The real sector of the country is in constant need for bank loans, and this need is growing, especially in the economic crisis conditions. In a crisis, a decrease in demand for consumer goods and prices for goods and services, a reduction in government orders, and the insolvency of debtors lead to a sharp demand by enterprises for additional financial resources. Of course, it is not advisable to fully satisfy this requirement at the expense of bank loans. Secondly, during economic crisis, banks will not have enough financial resources to meet this need.

In addition, there is a risk of non-repayment of loans provided by banks, which is credit risk. Therefore, despite the high demand for bank loans during the economic crisis, banks are reluctant to increase lending. This was done not to belittle the role of banks in the economy, but to ensure that banks, as a commercial institution, are guided by economic interests, and most importantly, the funds that banks lend on a risk basis are not their own funds, but the funds of other borrowers.

## **Conclusion**

The role of banks in the economy, whether it is a commercial bank or a central bank, is invaluable. Because they provide the economy with money and carry out major remittances. Therefore, we believe that their independence should be further ensured and their activities should be more liberalized.

## **References**

1. Abdullaeva.Sh.Z. Banking. Textbook - Tashkent: Economics and Finance, 2017
2. Frederic S.Mishkin.The economics of money,banking and financial markets.Peaeson Education Limited.pp.2013.
3. "Money, Bank credit and Economic cycles". JESÚS HUERTA DE SOTO. Second edition 2009.
4. Abdullaeva .Sh.Z.Money, credit and banks- T: Economy-Finance, 2007.
5. <https://opentextbc.ca/principlesofeconomics2eopenstax/>