

Development of Financial and Credit Relations in the Service Sector in the Context of Intensive Economic Development

Zaynalov Jakhongir Rasulovich

Professor, Samarkand institute economics and service

Alieva Susanna Seyranovna

Associate professor of Samarkand Institute of Economics and Service

Abstract: *The article offers various aspects of financial and credit services management, it is noted that this issue should be looked at, first of all, from the standpoint of financial and credit services development. The content of the article is largely determined by the tasks: to reveal knowledge of services, actively inherent tools and to show the role of services in strengthening financial and credit relations.*

Key words: *final result, labor productivity, interest, service sector, financial and credit relations, credit allocations, self-financing, bank loan, working capital, financing.*

Introduction

The modern world is experiencing major changes, the scale of which allows us to talk about the impact of the financial crisis, first of all, on the economic activity of service sector enterprises. The reason for this is due to the sources of formation of funds for financing service sector enterprises. At present, the sources of financing the economic activity of enterprises are their own funds, budget funds and banks.

Depending on the form of management, certain sources of financing prevail. Commercial enterprises operate at their own expense; budgetary enterprises – at the expense of budget funds; non-profit enterprises use mixed sources of financing. Bank funds as a source of financing are used primarily by commercial enterprises, since bank loans are not only repayable, but also paid. Payment for loans is made from both the cost price and the profit of enterprises. Consequently, a bank loan is a source of financing mainly for competitive enterprises. With the increasing influence of crisis factors, the terms of financing also change. Thus, in the socio-cultural sphere, estimate financing is accepted, and in science – targeted estimate financing. Enterprises that previously used a mixed form of financing become self-financing.

Review and analysis of the state of the problem under study.

The current nature of credit relations makes it profitable for banks to provide long-term, preferential loans. Therefore, it is necessary to create economic conditions that stimulate the participation of commercial banks in the implementation of large-scale target programs for the modernization of the economy and active assistance to entrepreneurship. It is also advisable to provide for a preferential taxation procedure for commercial banks.

Strengthening the functions of credit is not only a prerequisite for overcoming the financial crisis, but also its consequence. Against the background of the financial crisis, the needs of enterprises for funds have increased significantly, which is due to both the rise in prices and the need to cover expenses caused by changes in financial relations due to the financial and economic crisis.

A positive effect on the development of sources of financing for enterprises would also be achieved by conducting marketing research on borrowers with the aim of identifying their needs for new types of loans, increasing the level of awareness of private clients, in particular service sector entities, about new types of loans and banking services, and an individual approach to lending.

The final result of enterprises in the broad sense of the word always acts as a population engaged in useful productive labor. Achieving the final result indicates the satisfaction of a specific need of an individual. This is precisely what the activities of service sector enterprises are aimed at. It should be noted that service sector workers do not form the final result completely, although they make a significant contribution to its achievement.

Consequently, service sector workers directly provide only the prerequisites, conditions for achieving the final results. However, the productive labor of workers can manifest itself only if the producers of goods (products) will cede part of the production costs to service sector entities (e.g., packaging, sorting, storage of goods or products). But this is a matter for a separate scientific study. The disclosure of the socio-economic essence of individual features of labor costs in the service sector is covered in the scientific works of scientists of the Institute of Economics and Service, for example, I. T. Abdukarimov, M. M. Mukhammedov, D. Kh. Aslanova and others.

However, they have not paid enough attention to the issues of financial and credit relations in the service sector, the range of scientific research in this area is quite narrow and limited to the consideration of individual tasks. The presence of the listed problems determines the need for a systematic study, generalization and critical rethinking of the established practice of financial and credit relations in the service sector, which determines the practical significance and relevance of the research topic under consideration.

The main financial instruments capable of achieving the set goal are the development of financial and credit relations in the service sector, including the assessment of proposals for forecasting the level of quality of financial and credit services depending on changes in production factors, according to which stability of financial and credit relations in the services market can be established, and further optimization of the quality of the service depending on changes in financial indicators: income, profit, price, costs, interest, tax, benefits, etc.

In our opinion, the development and implementation of strengthening the quality of financial and economic relations will allow:

- improve the efficiency of financial and credit relations;
- ensure the planned level of quality of financial and credit services depending on their cost by coordinating economic interests;
- control financial and credit services at all stages of their provision in order to identify in advance factors that may influence financial and credit relations in the service sector.

The expansion of the scope of activities of enterprises has intensified the use of bank funds. In the Republic of Uzbekistan, investments of commercial banks in the real sector of the economy as of January 1, 2023, increased by more than 20% over the year. About a third of the working capital of enterprises and about 8% of investments are formed through loans.

The degree of use of credit as a source of financing varies across the spheres of activity. The share of credit allocations in the total costs of enterprises in the non-production sphere, especially in the socio-cultural sectors, is lower, and in the sphere of material production, at self-financing enterprises, it is higher. For example, in the sphere of consumer services to the population, the share of credit in the formation of working capital is slightly more than 8.5% of the actual availability of these funds.

It is known that short-term loans account for the largest share of the total bank loan. This is typical for both the economy as a whole and its individual sectors. At the beginning of 2022, short-term loans aimed at economic development accounted for more than 71%, and for the consumer services sectors, this figure was 60%.¹

In the last two years (2020-2022), there has been a further increase in the share of short-term loans in the total volume of credit investments in the economy. Thus, in 2022, 82.1% of credit investments of commercial banks were short-term loans. However, in previous years (2018-2019), when there was a decrease in the scale of bank lending in the economy, it was carried out mainly due to the absolute and relative decrease in the size of short-term loans due to the coronavirus pandemic. Thus, from 2018 to 2019, the volume of short-term loans decreased by almost 30%, long-term loans - only by 12%. In the sphere of consumer services to the population of Samarkand, on the example of which the analysis of credit relations in the service sector was carried out, these figures were 50 and 60%, respectively. As a result, the share of short-term loans in the total volume decreased by 5 in general, and by 16 percentage points in consumer services to the population.²

A similar picture is emerging in other sectors of the republic's service sector. Thus, with a reduction in bank loans to housing and communal services from 2028 to 2022 by almost 30%, the volume of short-term loans decreased by more than 20%.³

An analysis of the factors of bank credit movement, conducted on the basis of materials from the sphere of consumer services, showed that the reduction of short-term funds lent to the industry occurred due to: an increase in the provision of enterprises with their own working capital; instability of interest rates for using credit; restrictions by the central bank on the refinancing rate and the emission of payment instruments. The reason for the growth of the share of short-term loans was the chronic insolvency of enterprises, especially in the conditions of unstable economic development.

Thus, at consumer service enterprises, the amount of own and equivalent working capital increased by 43% from 2018 to 2019. It is during this period that interest rates on loans continue to increase. One of the reasons for the rise in the cost of credit and the reduction in loans issued to the economy is the restriction by the central bank on the issue of payment instruments.

The rise in prices, interest rates, and the central bank's restriction on the emission of funds generated a crisis of enterprise insolvency, which in turn led to a redistribution of loans between both economic sectors and types of loans. Short-term loans accounted for the largest share (74.0%), with the majority (57%) issued for a period of up to three months. Enterprise insolvency also served as a reason for the redistribution of bank loans in favor of trading enterprises, which ensured the highest efficiency of their use and guarantees of their repayment. Thus, among the clients of the National Bank for Foreign Economic Activity in the Samarkand Region, manufacturing enterprises account for less than 28%.⁴

It seems that providing enterprises with a full loan for a period of 3-5 years will help eliminate one of the reasons for non-payments – a lack of their own working capital.

Speaking about the reduction of bank loans directed to the economy, it should be noted that this process is taking place in conditions of a decline in production and is, in our opinion, both its consequence and cause.

¹ Calculated based on data from the statistical department of the Samarkand region for 2022.

² Based on the data of stat.uz

³ Based on the official data

⁴ Calculated based on data from the statistical department of the Samarkand region for 2022.

Bank credit serves as one of the levers for overcoming crisis factors. Along with other sources of investment (profit, depreciation charges of enterprises), credit is used for expansion and reconstruction of production, modernization of equipment and introduction of new technology and technology. Reduction of the size of long-term bank loans, decrease in the mass of profit, depreciation charges, on the one hand, and growth of prices for means of production and services, on the other, leads to a slowdown in production rates, physical and moral wear and tear of equipment, which in turn entails a decrease in the rate of development of production, quality of products, etc.

The sharp reduction in bank loans affects the processes of expansion and improvement of production in the service sector, where the share of long-term loans in total investments was more than 25%. Thus, in consumer services to the population, the share of long-term loans in the total costs of enterprises was 32%. In the consumer services sector, the rate of decline in the size of long-term loans is significantly higher than in the economy as a whole. Thus, from 2018 to 2021, the total volume of long-term loans directed to enterprises of the republic decreased by more than 0.4 times. This trend has continued to this day: by 2022, the size of the loan in the total investment amounted to only 7%.⁵

Thus, the development of long-term credit is hampered by several reasons. The main one is that, against the backdrop of the financial crisis in our economy, measures for technical re-equipment and reconstruction of production are too risky, since it is possible not to receive the funds necessary to repay loans and pay interest on them in time. It is quite obvious that in June 2023, long-term credit accounted for slightly more than 13% of commercial banks' credit investments.⁶

This is not only due to the reluctance of banks to make long-term investments in the economy. There is also a significant reduction in demand for long-term credit. Enterprises do not risk making long-term loans due to high interest rates and the lack of clear prospects for making a profit, and when choosing sources of financing, they prefer non-repayable and free forms of financing.

Therefore, it is necessary to undertake attempts to revive the process of curtailing long-term investment by embodying it in the creation of a project finance bank (PFB), which should specialize in medium- and long-term lending, using financing technology. This is a form of providing a loan, in which money is allocated for possible income from the implementation of a project, which requires evidence of payback for each specific object. At the same time, the center of gravity will shift from financing giant multi-billion dollar projects to more manageable medium and small ones (100-200 million soums).

In this case, two fundamental points should be taken into account. Firstly, at the initial stage of its activity, the BPF should focus primarily on servicing the divisions of the export industries (oil, gas, petrochemical, forestry, non-ferrous and ferrous metallurgy). In this regard, enterprises of other, especially non-production, sectors of the economy, including consumer services, may remain outside the scope of long-term lending. Subsequently, the BPF will have to mainly deal with providing loans for the development of the private sector. As we can see, the problem of credit support for enterprises experiencing financial difficulties against the backdrop of events taking place in countries with transitional economies remains unresolved.

Credit also plays a significant role in the formation of working capital of enterprises. In many areas of the economy, credit accounts for 56% of the sources of financing working capital. The supply and sales areas of enterprise activity are especially credit-intensive. Thus, 52% of the equipped funds are formed through bank loans. As for trade, bank loans account for about 60% of the total value of inventories. In consumer services to the population, the share of credit in the sources of formation of equipped funds

⁵ Calculated based on data from the statistical department of the Samarkand region for 2022.

⁶ Calculated based on data from the statistical department of the Samarkand region for the first half of 2023.

in 2022 was 21.5%, by the beginning of 2023 it decreased to 3.2%. ⁷Partially, as noted above, this decrease was offset by an increase in own working capital. However, such compensation did not fully cover the needs of enterprises for working capital, the deficit of which was not slow to affect the results of production. Thus, in fact, the volume of sales of services, works and products of consumer services enterprises by the end of 2022 decreased by 22%.

Suggestions and recommendations on the research topic.

All this allows us to conclude that in the conditions of the financial crisis, the stabilization of production, and subsequently its growth, will require an increase in financial injections into the economy, including in the form of credit, which will primarily require the Central Bank to lift restrictions on credit emissions. The first step in this direction has already been taken: the Central Bank has allocated a large amount of centralized loans. However, given the huge debt of enterprises to commercial banks, the allocated amount is insufficient even to cover this debt. At the same time, against the backdrop of the financial crisis, the need for funds is significantly increasing. And this is due not only to the growth of prices, interest rates, but also to changes in the tax system.

In this case, to buy out enterprises, it is necessary to have funds equal to the value of the privatized property. According to experts, the funds available to the population, enterprises and organizations allow no more than 7% of the value of the fixed assets of enterprises to be used for the buyout of state property. Thus, the privatization of enterprises with their buyout will require a long time, and the crisis, which is passing so painfully, will be prolonged in this regard. In these conditions, the speed of privatization becomes the main factor in the formation of the market mechanism. To form privatization (with the buyout of property), it is necessary to find the funds required to cover more than 60% of the value of the property subject to privatization.

The first experience in this regard showed the need for credit support for privatized enterprises. It is impossible to rely solely on the funds earned by the enterprise in the course of its commercial activities and the cash savings of the employees of the enterprises. Thus. For enterprises that carried out the redemption of property, the main source of funds allocated for the one-time payment of the cost of the funds they acquired was a loan (76% of the redeemed cost). Meanwhile, the share of the enterprises' own funds amounted to about 24%, or only 0.5% of the cost was paid from the personal savings of the employees.

Undoubtedly, the borrowers will be individuals (legal entities and individuals) who do not have sufficient funds.

However, the recently increased interest rate on loans puts borrowers and owners of large sums of money in unequal conditions. For the former, the amount of funds required to buy out the property will be 1.5-2 times higher than for the latter. In this regard, the issue of introducing a preferential interest rate for the use of property and credit should be raised.

In addition, the development by commercial banks of a socially oriented credit policy in the relations between small businesses and private entrepreneurship also requires the modernization of forms and methods of lending, improvement of interest rate policy and conditions for the provision and repayment of loans, and the use of the experience of foreign countries.

⁷ Calculated based on data from the statistical department of the Samarkand region for 2022.

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