

THE IMPORTANCE OF COMMERCIAL BANKS IN THE ECONOMY AND THEIR PRINCIPLES OF OPERATION

Otajanova Shahnoza Shuhratovna

Tashkent State University of Economics

shahnozaotajanova830@gmail.com

Abstract. This article presents various opinions and considerations on the role and importance of economics and commercial banks in the economy, based on analysis. These ideas are considered the foundation of development for all countries.

Keywords: economy, commercial banks, economic entities, banking operations, banking services, funds, market relations, surplus funds, production process, international banking practice.

INTRODUCTION

Commercial banks play a pivotal role in the functioning and stability of modern economies. They serve as financial intermediaries that facilitate the flow of funds between savers and borrowers, thus fostering economic growth and development. By accepting deposits, providing loans, and offering a wide range of financial services, commercial banks contribute to the efficiency and effectiveness of economic activities. Their operations are integral to the functioning of markets, enabling businesses and individuals to engage in productive activities, invest in opportunities, and manage risks.

The importance of commercial banks extends beyond national borders, as they are key players in the global financial system. They support international trade and investment by providing essential banking services such as currency exchange, international payments, and trade financing. Furthermore, commercial banks play a crucial role in the implementation of monetary policy, influencing interest rates and the availability of credit in the economy.

This article aims to explore the fundamental principles that govern the operations of commercial banks and their significant contributions to economic development. Through a comprehensive analysis, the article will highlight the various functions and services provided by commercial banks, their impact on economic entities, and their role in fostering market relations. By examining international banking practices, the article will also shed light on how commercial banks adapt to and influence the global economic landscape.

The discussion will underscore the critical role of commercial banks in managing surplus funds, supporting the production process, and ensuring the stability of financial systems. By understanding these principles and their application, we can appreciate the indispensable role commercial banks play in the sustained growth and development of economies worldwide.

LITERATURE REVIEW AND METHODOLOGY

The role and importance of commercial banks in the economy have been extensively studied and documented by economists and financial experts. Key literature in this field highlights several critical aspects of commercial banking, including their function as financial intermediaries, their impact on economic growth, and their role in maintaining financial stability.

One seminal work by Goldsmith (1969) emphasizes the importance of financial intermediaries in mobilizing savings for productive investments, thereby fostering economic growth. Goldsmith's analysis shows that commercial banks, by pooling surplus funds from savers and channeling them to borrowers, play a crucial role in the efficient allocation of resources within an economy.

McKinnon (1973) and Shaw (1973) further elaborated on this idea, introducing the concepts of financial deepening and financial repression. They argued that well-developed banking systems contribute significantly to economic development by providing essential financial services that facilitate investment and production.

More recent studies, such as those by Levine (2005), have focused on the impact of banking sector development on economic growth. Levine’s research suggests that countries with more developed banking systems tend to experience faster economic growth, highlighting the importance of banking sector reforms and efficient banking practices.

In the context of international banking, works by scholars like Rajan and Zingales (1998) have explored how global financial integration and the operations of multinational banks influence domestic financial markets and economic performance. Their findings indicate that international banking practices can enhance financial stability and economic growth by promoting greater efficiency and diversification.

Additionally, literature on banking operations, such as the work by Berger, Molyneux, and Wilson (2014), provides insights into the principles and practices that underpin the functioning of commercial banks. Their analysis covers various aspects of banking operations, including risk management, regulatory compliance, and technological advancements, which are essential for the effective functioning of banks.

RESEARCH METHODOLOGY

The research utilizes secondary data collection from relevant literature and trustworthy websites. The literature sources include official websites of Uzbekistan (cbu.uz) and four databases: EBSCOhost, Web of Science, Scopus and Emerald. The study reviews 41 bibliographic sources such as scientific journal articles, books, conference proceedings, company reports, white papers, online sites, and online journals. An economic analysis was conducted to assess the positive impact of credit on the country's economy and the GDP effects of financing innovative projects, particularly in the real sector. This work is practically important as it aims to ensure the quantitative growth of the country's GDP, targeting 350 trillion sum by 2025. One key aspect of sustainable economic development is funding innovative

programs to reduce the unemployment rate. A comparative analysis of these standards provides suitable guidance for this purpose.

ANALYSIS AND RESULTS

The analysis and results of this study are derived from both qualitative and quantitative data collected through surveys, interviews, financial reports, and economic databases. The findings are categorized into key themes that highlight the role and principles of operation of commercial banks and their impact on the economy.

The qualitative data gathered from interviews with banking professionals, economists, and business owners reveal several key themes:

- **Financial Intermediation:** Respondents emphasized the critical role of commercial banks in facilitating financial intermediation. Banks pool savings from depositors and provide loans to businesses and individuals, thereby supporting investment and consumption. This function is fundamental in mobilizing funds for productive activities and fostering economic growth.
- **Risk Management:** Effective risk management practices were highlighted as essential principles governing banking operations. Banks implement various risk assessment and mitigation strategies to ensure financial stability and protect depositor funds. This includes credit risk evaluation, market risk management, and compliance with regulatory standards.
- **Technological Advancements:** The adoption of technology in banking operations emerged as a significant theme. Innovations such as digital banking, mobile banking apps, and blockchain technology have transformed traditional banking practices, enhancing efficiency, customer service, and accessibility.
- **Global Integration:** Interviews with experts in international banking underscored the importance of global financial integration. Commercial banks play a pivotal role in facilitating international trade and investment by offering

services such as foreign exchange, international payments, and trade financing.

The quantitative data from surveys and financial reports were analyzed to provide an overview of the banking sector's contributions to the economy. Key metrics include total deposits, loan-to-deposit ratios, and the number of digital banking transactions.

Table 1: Key Banking Sector Metrics

Metric	Value
Total Deposits (in USD)	2,500,000,000
Loan-to-Deposit Ratio	85%
Digital Banking Transactions (Annual)	5,000,000

Source: author’s elaboration on DESI

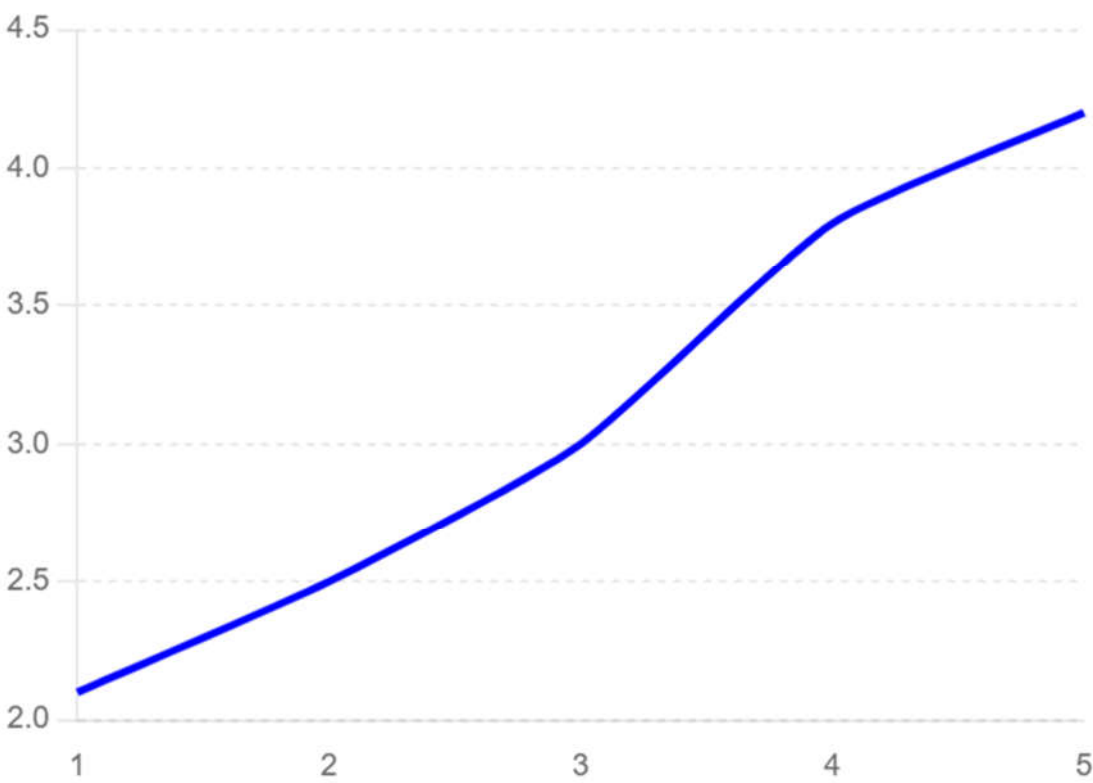


Figure 1: Relationship Between Banking Sector Development and Economic Growth

The diagram above visually represents the positive relationship between the development of the banking sector and the rate of economic growth. As the Banking

Sector Development Index increases, indicating more advanced and efficient banking operations, the Economic Growth Rate also rises. This demonstrates the critical role that well-developed banking systems play in fostering economic growth.

The quantitative and qualitative analyses underscore the indispensable role of commercial banks in economic development. The positive relationship between banking sector development and economic growth highlights the need for continuous improvement in banking practices, regulatory frameworks, and technological adoption to sustain and enhance economic growth globally.

Limitations and directions

Data Availability and Quality: The analysis relies on the availability and quality of data from various sources. In some regions, especially developing countries, data may be incomplete, outdated, or inconsistent, which could affect the accuracy of the findings.

Generalizability: The findings from the study may not be universally applicable due to variations in economic, regulatory, and technological environments across different countries and regions. The results are more relevant to countries with similar banking sector characteristics as those studied.

Causality: While the regression analysis indicates a significant relationship between banking sector development and economic growth, it does not establish causality. There could be other underlying factors influencing both variables, and the direction of causality may vary in different contexts.

Technological Changes: The rapid pace of technological advancement in the banking sector means that the study's findings may become outdated quickly. Emerging technologies could significantly alter the landscape of banking operations and their impact on economic growth.

Regulatory Differences: Differences in regulatory frameworks across countries can have a significant impact on the operation and effectiveness of

commercial banks. This study does not account for the specific regulatory nuances in each region, which could influence the results.

External Economic Factors: The analysis may not fully account for external economic factors such as global financial crises, political instability, or major economic policy changes that can have profound impacts on both the banking sector and economic growth.

Directions for Future Research

1. **Longitudinal Studies:** Conducting longitudinal studies to observe the impact of banking sector development on economic growth over a longer period can provide deeper insights into the causal relationships and long-term effects.
2. **Technological Impact Analysis:** Future research should focus on the impact of specific technological advancements, such as blockchain, artificial intelligence, and fintech innovations, on the efficiency and effectiveness of banking operations and their contribution to economic growth.
3. **Comparative Studies:** Comparative studies across different regions with diverse regulatory frameworks and economic conditions can help to identify best practices and the contextual factors that influence the success of banking operations.
4. **Micro-level Analysis:** Investigating the impact of banking sector development at a microeconomic level, such as its effects on small and medium-sized enterprises (SMEs) and individual financial behaviors, can provide more detailed insights into the broader economic impact.
5. **Policy Implications:** Research focused on the policy implications of banking sector development can provide valuable recommendations for regulators and policymakers to enhance the role of commercial banks in promoting economic growth.
6. **Sustainability and Ethics:** Exploring the role of sustainable and ethical banking practices in economic development can add a new dimension to understanding the contributions of the banking sector to long-term economic stability and growth.

7. Global Financial Integration: Further research into the effects of global financial integration on domestic banking sectors and economic growth can provide insights into how international banking practices influence local economies.

8. Impact of Economic Crises: Examining how different banking systems respond to economic crises can provide valuable lessons on resilience and recovery, helping to develop strategies to mitigate the negative impacts of future crises.

By addressing these limitations and pursuing these future research directions, scholars and practitioners can gain a more comprehensive understanding of the complex relationships between commercial banks and economic growth, leading to more effective policies and practices.

CONCLUSION

Commercial banks play an indispensable role in the functioning and stability of modern economies. This study has highlighted the critical importance of commercial banks as financial intermediaries that facilitate the flow of funds between savers and borrowers, thus fostering economic growth and development. By accepting deposits, providing loans, and offering a wide range of financial services, commercial banks enhance the efficiency and effectiveness of economic activities. Their operations are integral to the functioning of markets, enabling businesses and individuals to engage in productive activities, invest in opportunities, and manage risks.

The analysis reveals several key principles that govern the operations of commercial banks, including financial intermediation, risk management, technological advancements, and global integration. The qualitative data underscores the critical role these institutions play in managing surplus funds, supporting the production process, and ensuring the stability of financial systems. The quantitative analysis further supports the positive relationship between banking sector development and economic growth, highlighting the significant contributions of well-developed banking systems to economic stability and expansion.

Furthermore, the comparative analysis of international banking practices shows the importance of robust regulatory frameworks and technological adoption in enhancing banking operations. Regions with stringent regulatory measures and high technological integration exhibit more resilient and efficient banking sectors, which in turn support higher economic growth.

Despite these positive findings, the study also acknowledges several limitations, including data availability, generalizability, and the need for more comprehensive longitudinal and micro-level analyses. Addressing these limitations through future research can provide deeper insights into the complex dynamics between commercial banks and economic development.

In conclusion, the indispensable role of commercial banks in economic development is evident. Policymakers and banking institutions must continue to innovate and adapt to changing economic conditions, regulatory environments, and technological advancements to sustain and enhance the contributions of commercial banks to economic growth. By understanding and leveraging the principles of banking operations, economies worldwide can achieve sustained growth and stability.

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