

## THE ROLE AND IMPORTANCE OF INVESTMENT ATTRACTIVENESS IN IMPROVING THE BANKING AND FINANCIAL SECTORS OF THE MARKET ECONOMY

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### ABSTRACT

Investment attractiveness is crucial to ensuring economic growth, stability and development of the banking and financial sector in a market economy. Investment attractiveness is a key factor in strengthening the banking sector, as it attracts both domestic and foreign investors. Investment attractiveness means the ability to attract investments based on economic potential, stability and market or industry development prospects. The investment attractiveness of the banking sector may be influenced by several factors, including regulatory framework, economic stability, profitability and general ease of doing business. This article defines investment attractiveness as the way in which investors direct their resources to financial institutions and the banking sector within a given market, the right allocation and many other types of investment activities.

**Keywords:** financial sector, banking sector, investment activity, economic development, foreign investments

### INTRODUCTION

The financial sector, which includes banks, insurance companies, stock markets and other financial institutions, is the main pillar supporting economic activity.

A strong and attractive banking sector is important for sustainable growth in the market economy. Banks mediate between depositors and borrowers, channelling funds into productive investments in different sectors of the economy. If the banking sector is attractive to investors, it will be able to mobilize savings and provide cheap credit to businesses and individuals. This, in turn, stimulates economic activity, helps create new jobs and enhances overall economic development. An attractive financial sector, attracting stable investment, can naturally withstand economic downturns, exchange-rate fluctuations, and other market shocks if it has a strong capital base and diversified financial services. Moreover, investment attractiveness promotes the development of reliable financial infrastructures, such as payment systems and credit rating agencies, which are important for the stability and sustainability of the financial system.

### MATERIAL AND METHODS

#### Increase in capital flow

Investment attractiveness directly affects capital inflows into the banking sector. A stable and predictable regulatory environment, combined with growth-enhancing economic policies, will encourage investors to invest in banks. This capital flow increases the ability of banks to lend to businesses and individuals, thereby stimulating economic expansion. As banks receive more

investment, they can strengthen their balance sheets, reduce the number of distressed loans, and improve their financial stability.

### **Improved risk management**

Attracting investment in the banking sector will also improve risk management practices. Investors, especially institutional investors, need a robust risk management system to protect their investments. This pressure is forcing banks to adopt the world's best practices in risk assessment, credit assessment, and asset management. As a result, banks become resilient to economic shocks, reducing the likelihood of financial crises and contributing to overall stability of the financial system.

### **Strengthening financial markets:**

An attractive investment climate is crucial for the development of financial markets, including stock exchanges and bond markets. This encourages local and international investors to participate in financial markets, increases liquidity and market depth. High liquidity makes it easier for investors to buy and sell financial instruments, reducing transaction costs and increasing market efficiency. A well-functioning financial market is important for a market economy, as it provides the basis for attracting capital, promoting investment and supporting economic growth.

### **Attracting foreign direct investment (FDI)**

Investment attractiveness plays an important role in attracting foreign direct investment (FDI) into the financial sector. FDI brings not only capital, but also the technical expertise, advanced technology and managerial skills needed to modernize and develop financial institutions. The presence of foreign investors also contributes to transparency, corporate governance and compliance with international standards. As a result, the financial sector is becoming more sustainable, transparent and competitive, contributing to overall stability and growth of the market economy.

### **Improved affordability**

The financial sector, attractive to investors, seeks to expand its reach and services for the poor, thereby promoting affordability. Investment in innovative financial technology (fintech) and digital banking services can help provide financial services to rural and low-income areas, often driven by investors' demand for modern and efficient financial solutions. Accessibility of financial services is crucial for a market economy, as it ensures that more people have access to financial services, savings, credit and insurance. This in turn contributes to economic growth and poverty reduction.

## **RESULTS**

On May 20, President Shavkat Mirziyoyev got acquainted with the presentation on the participation of banks in attracting foreign investment. Thanks to the favorable investment environment, financial stability and bank activity are growing in our country. In particular, over the last 5 years, banks' capital doubled, their loan portfolio increased by 2,3 times, and

the volume of annual lending increased by 1,8 times. Four banks issued Eurobonds for the first time, attracting US \$1 billion 300 million. Last year, banks attracted US \$3,8 billion in foreign loans, and their major clients directly acquired US \$6 billion without state guarantees. In modern conditions, it is necessary to expand this activity and to implement projects of high quality. The presentation provided information on the activities of the National Bank of Uzbekistan and "Uzpromstroybank" in this direction. This year the National Bank plans to implement projects worth US \$6 billion. In particular, 526 projects for 2,1 trillion Uzbek soums in the jewelry industry and more than 40 thousand projects in the service sector are planned to be implemented with loans worth 41,8 trillion Uzbek soums. As a result, over 2,5 million people are expected to be employed. "Uzpromstroybank" plans to attract funds from the international financial market in the amount of US \$3 billion 100 million this year. The bank's clients have launched investment projects worth US \$4 billion and 800 million. In 2024-2025, the bank plans to attract foreign investment in the amount of US \$2 billion 800 million in 529 projects in the construction materials industry, which will create 25 thousand jobs. The National Bank supports the employment of the unemployed population in 967 makhallas and "Uzpromstroybank" in 727 makhallas. It is also important to bring business structures out of the "shadows" through the use of grassroots work by banks. The presentation also pointed out the need for systematic monitoring of clients' investment projects and the operational solutions to emerging problems. The importance of comprehensive support for entrepreneurs at all levels - from the district to the republican level, to raise their financial and innovative awareness was emphasized.

## DISCUSSION

### **Encourage innovation and competition**

Investment attractiveness contributes to innovation in the banking sector by attracting strategic investors who bring expertise, technology and innovative financial products. The presence of foreign banks and investment firms also contributes to healthy competition among local banks. This competition encourages local banks to improve their services, introduce new technologies and introduce innovative products to retain and attract customers. Over time, this will lead to a more sustainable, dynamic and competitive banking sector better prepared to meet the diverse needs of a market economy.

### **Promotion of sustainable development:**

The investment attractiveness of the financial sector also contributes to sustainable development by encouraging environmentally and socially responsible investments. Investors are increasingly looking for sustainable financing options, such as green bonds, social impact bonds, and other financial instruments that support environmental and social goals. By creating a favourable investment environment, financial institutions can attract funds for sustainable projects that promote economic growth while addressing social and environmental problems.

## CONCLUSION AND SUGGESTIONS

Investment attractiveness is an important component of strengthening the banking sector in a market economy. By attracting capital inflows, stimulating innovation and competition, improving risk management and supporting economic growth, investment attractiveness plays an important role in enhancing the efficiency and stability of the banking sector. To maintain and enhance investment attractiveness, policymakers should continue to improve the regulatory framework, ensure economic stability, and create a business-friendly environment.

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