Volume: 3, Issue: 6
Page: 21 - 28
2021

ISSN: 2707-8965 (Online) & 2708-3772 (Print)

Euro Afro Studies International Journal®
(EASIJ.COM)

The Role of the Financial Sector in Economic Development

Author(s), FAKHRIEV SHAKHBOZ KOMILJONOVICH

Abstract:

This article analyzes the importance of the financial sector in the economy. The financial sector plays a number of important roles that are seen as an integral part of the economy. In addition, the increasing global cash flows today highlight the relevance of this study. The article analyzes the volume of global cash flows on the basis of statistical data. The tasks of the financial sector are outlined. Based on these tasks, the impact on the economy is analyzed. Scientific conclusions have also been drawn from various econometric analyzes.

EASIJ
Accepted 10 June 2021
Published 15 June 2021
DOI: 10.5281/zenodo.4958217

Keywords: finance, financial sector, cash flows, economic growth, economic development, fiscal policy, monetary policy,

About Author

Author(s):

FAKHRIEV SHAKHBOZ KOMILJONOVICH,

Student of Tashkent Financial Institute, Uzbekistan.

Email: shaxboz3333000@gmail.com

Phone: +998933333000

Introduction

The financial sector is a key and integral part of the economy. Economic development depends on the financial sector. Proper management of the financial sector and proper fiscal policy will ensure financial stability in the country. This is one of the main factors influencing macroeconomic stability and economic security in the country.

A number of other categories, such as the level of income of the population, the payment system in the country, the exchange rate, wages, pensions, arise directly in the financial sector and are regulated by this sector.

The financial sector is responsible for financing and servicing economic processes and activities. The importance of finance is reflected in the fact that it is impossible to do without financing economic processes. Everyday human activity consists of economic processes and it is associated with money. In this case, the finances are manifested. These processes are chained and interconnected, resulting in a nationwide financial system. But the bottom line is the daily economic activity of each person.

The distributive function of finance is manifested in the distribution and redistribution of gross national product created in the sphere of material production, especially its part of national income between enterprises based on various forms of state and ownership, sectors of the economy, branches of material production, regions. This serves as the basis for regulating the production process and the economy as a whole.

Based on the above, the study of the financial sector, its comprehensive study, overcoming the existing problems and shortcomings and ensuring a high level of financial stability is a topical issue today.

Therefore, this article is devoted to the analysis of the role of the financial sector in the development of the economy.

Literature review

The role of the financial sector in the economy has been studied by many scholars and researchers on the example of different countries and different periods.

Scholar Wen-Jun Xue analyzed the impact of the financial sector on economic growth in his article "Financial sector development and growth volatility: An international study" [1]. He also looked at the impact of inflation on the process. In the article, the scientist conducted a study using the indicators recorded in the economies of 50 countries.

Scholars Martin Melecky and Anca Maria Podpiera analyzed financial sector strategies used by countries around the world in their article "Financial sector strategies and financial sector outcomes: Do the strategies perform?" [2]. It considers the financial strategies of 150 countries from 1985 to 2014.

Researchers Anna Agapova and SharmilaVishwasrao analyzed the impact of foreign aid on the public sector and the private sector in their article "Financial sector foreign aid and financial intermediation" [3]. The article also discusses the role of the financial sector and foreign aid in achieving high economic growth.

Also, scientists Baah Aye Kusi, Elikplimi Komla Agbloyor, Agyapomaa Gyeke-Dako, and Simplice Anutechia Asongu in their article *"Financial Sector Transparency and Net Interest Margins: Should the Private or Public Sector Lead Financial Sector Transparency?"* [4], Badr

Machkour and Ahmed Abriane in their article "Industry 4.0 and its Implications for the Financial Sector" [5], David Morelli and Davide Vioto in their article "Assessing the contribution of China's financial sectors to systemic risk" [6], Syed Jawad Hussain Shahzad, Thi Hong Van Hoang and Jose Arreola-Hernandez in their article "Risk spillovers between large banks and the financial sector: Asymmetric evidence from Europe" [7], Muazu Ibrahim and Juan Vinh Vo "Exploring the relationships between innovation, financial sector development and environmental pollution in selected industrialized countries "[8] analyzed the role of the financial sector in the economy and its impact on economic development.

Analysis and results

The share of the financial sector in the economy is growing. Especially financial services are developing. As a result of the development of digital technologies, financial services are also developing. As the needs of the people increase and their financial knowledge increases, the financial sector is developing.

The financial sector is a section of the economy made up of firms and institutions that provide financial services to commercial and retail customers. This sector comprises a broad range of industries including banks, investment companies, insurance companies, and real estate firms [9].

The main features of the financial sector are:

- The financial sector is a section of the economy made up of
- firms and institutions that provide financial services to commercial and retail customers.
- A strong financial sector is a sign of a healthy economy.
- The financial sector generates a good portion of its revenue from loans and mortgages and thrives in a low-interest-rate environment.
- The sector is comprised of many different industries including banks, investment companies, insurance companies, and real estate firms.

There are other views on the financial sector. According to it, the financial sector is defined as follows: The financial sector is a segment of the economy composed of companies and institutions that provide commercial and retail customers with financial services. A large portion of this sector produces mortgage and loan income, which increases the value as interest rates decline. The economy's health is mainly dependent upon the efficiency of its financial sector. The better the economy is, the safer it is for the country. A weak financial sector typically means a declining economy [10].

The financial sector performs the following functions:

- **Value exchange:** a way of making payments.
- **Intermediation:** a way of transferring resources between savers and borrowers.
- **Risk transfer:** a means for pricing and allocating certain risks.
- **Liquidity:** a means of converting assets into cash without undue loss of value [11].

If we focus on the global economy, we can see that the share of the financial sector is growing. The share of financial services in particular is on the rise. Especially in recent years, the volume and speed of remittances from the population is growing. As a result, there is growth in this process.

If we look at the statistics of personal remittances on a global scale, we can see that the volume of remittances is growing. This figure rose from $ 568.526 billion in 2015 to $ 656,412 in 2019 (Diagram 1). During this period, this figure was growing. But 2016 saw a lower result than in 2015, at $ 556.886 billion. The remaining two years of the period under review saw growth and high results. In 2017, the figure was $ 594.026 billion, while in 2018 the figure was $ 639.368 billion. That compares with $ 45.342 billion in 2018 compared to 2017. In 2019, it increased by $ 17.044 billion compared to 2018.

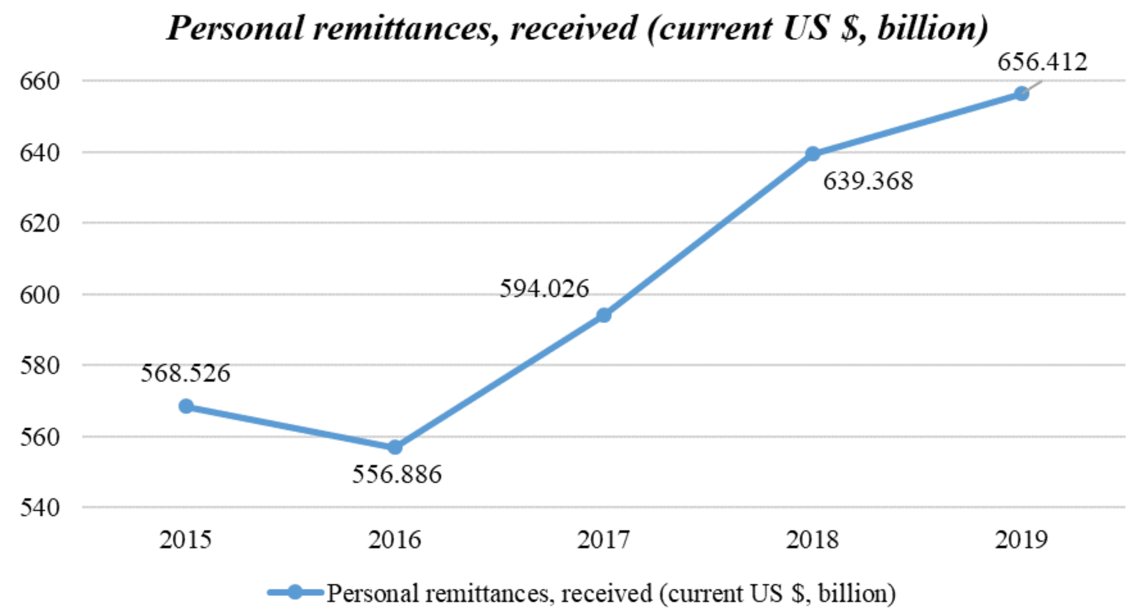

Diagram 1. Personal remittances, received (current US $, billion)
Source:
https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT?end=2019&start=1970&view=chart

As a result, the volume of personal remittances on a global scale is growing from year to year. This will lead to the development of the financial sector and increase its share in the economy. In particular, this change will lead to the development of financial services. In addition, the increase in this indicator indicates an increase in money in the hands of the population. It can also be assessed as an increase in revenue. This requires the improvement of fiscal policy and financial management in the world. This is because failure to manage money flows through the right macroeconomic policies can lead to various emergencies. For example, financial crises can occur in the economy due to increased cash flows and mismanagement. This requires a strong monetary policy.

Conclusions

The financial sector is one of the most important parts of the economy. The economy is regulated by fiscal policy and monetary policy. Monetary policy is directly related to the financial sector, in which cash flows and cash flows play a key role. The financial sector plays a number of important roles in the economy, thereby contributing to the development of the economy.

There are also different views on the concept of the financial sector. Different scholars have given different definitions of the financial sector. This topic is currently being studied on a global scale and is one of the most important topics in terms of relevance. There is a lot of research on this topic and a lot of research is being done today. The urgency of this topic is due to the fact that today the volume of financial services around the world is growing and the movement of cash flows is also increasing. The use of digital technologies in the industry has accelerated the flow of cash flows. In addition, the strengthening of economic ties between the countries has a positive impact on global cash flows. As a result, it has a positive impact not only on the economies of countries, but also on the development of the world economy, the achievement of high economic growth.

According to various econometric analyzes, there is a strong link between economic development and growth and the financial sector. That is, as the financial sector develops, so does the economy. In other words, there is a direct correlation between these two indicators.

Based on the analysis of statistical data, it can be observed that global cash flows are growing from year to year. This indicates that the population is engaged in a lot of money transactions. This requires an increase in the financial literacy of the population and the formation of strong financial management. In addition, in such circumstances, the countries of the world need to pursue strong fiscal policies. Because in such situations, mismanagement of the economy can lead to various emergencies and financial problems. This poses various risks to the economy.

In conclusion, the financial sector has a significant impact on economic development. The financial sector has specific functions that can influence the development of the economy. The share of the financial sector in the global economy is also high. The volume of services provided in this area is also growing. Increasing global financial flows will require increasing the financial literacy of the population and implementing strong financial management to address the financial challenges that may arise as a result. At the same time, it is necessary to actively use the support of macroeconomic policy in the country.

References

Agapova, A., & Vishwasrao, S. (2020). Financial sector foreign aid and financial intermediation*. International Review of Financial Analysis, 101589.* doi:10.1016/j.irfa.2020.101589 https://www.sciencedirect.com/science/article/abs/pii/S1057521920302337

Bernanke BS (2013), "The Crisis as a Classic Financial Panic", Speech at the Fourteenth Jacques

B.O.Tursunov, H.A.Tokhtasheva "Improving The Credit Mechanism To Increase The Competitiveness Of The National Economy" The American Journal of Interdisciplinary Innovations and Research (ISSN–2642-7478) **Published:** April 28, 2021 | **Pages:** 73-78 **Doi:** https://doi.org/10.37547/tajiir/Volume03Issue04-12

Financial sector. https://www.investopedia.com/terms/f/financial_sector.asp

Financial sector. https://cleartax.in/g/terms/financial-sector

Melecky, M., & Podpiera, A. M. (2020). Financial sector strategies and financial sector outcomes: Do the strategies perform? *Economic Systems, 100757.* doi:10.1016/j.ecosys.2020.100757 https://www.sciencedirect.com/science/article/abs/pii/S0939362518304837

Kusi, B. A., Agbloyor, E. K., Gyeke-Dako, A., & Asongu, S. A. (2020). Financial Sector Transparency and Net Interest Margins: Should the Private or Public Sector lead Financial Sector Transparency? *Research in International Business and Finance, 101260.* doi:10.1016/j.ribaf.2020.101260 https://www.sciencedirect.com/science/article/abs/pii/S0275531919306993

Badr Machkour, Ahmed Abriane. Industry 4.0 and its Implications for the Financial Sector. *Procedia Computer Science*, Volume 177, 2020, Pages 496-502,https://doi.org/10.1016/j.procs.2020.10.068 . (https://www.sciencedirect.com/science/article/pii/S1877050920323371)

Morelli, D., & Vioto, D. (2020). Assessing the contribution of China's financial sectors to systemic risk. *Journal of Financial Stability, 100777.* doi:10.1016/j.jfs.2020.100777 https://www.sciencedirect.com/science/article/pii/S1572308920300760

Shahzad, S. J. H., Van Hoang, T. H., & Arreola-Hernandez, J. (2018). Risk spillovers between large banks and the financial sector:Asymmetric evidence from Europe. *Finance Research Letters.* doi:10.1016/j.frl.2018.04.008 https://www.sciencedirect.com/science/article/pii/S1544612317307559

Muazu Ibrahim, Xuan Vinh Vo. Exploring the relationships among innovation, financial sector development and environmental pollution in selected industrialized countries. *Journal of Environmental Management*. Volume 284, 2021, https://doi.org/10.1016/j.jenvman.2021.112057 . (https://www.sciencedirect.com/science/article/pii/S0301479721001195)

Polak Annual Research Conference, Washington, DC, 8 November.

Xue, W.-J. (2020). Financial sector development and growth volatility: An international study. *International Review of Economics & Finance.* doi:10.1016/j.iref.2020.06.025 https://www.sciencedirect.com/science/article/abs/pii/S1059056020301386

Cite this article:

Author(s), FAKHRIEV SHAKHBOZ KOMILJONOVICH, (2021). " The Role of the Financial Sector in Economic Development", **Name of the Journal:** Euro Afro Studies International Journal, (EASIJ.COM), P, 21 –28. DOI: www.doi.org/10.5281/zenodo.4958217, Issue: 6, Vol.: 3, Article: 2, Month: June, Year: 2021. Retrieved from https://www.easij.com/all-issues/

Published By

AND

ThoughtWares Consulting & Multi Services International (TWCMSI)