THEORETICAL FOUNDATIONS OF THE CREDIT SYSTEM AND ITS ROLE IN ECONOMIC GROWTH

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Abstract. This paper explores the theoretical foundations of the credit system and examines its crucial role in promoting economic growth. Drawing on classical and modern economic theories, the study analyzes how credit facilitates capital accumulation, enhances investment, and increases productivity. The research reviews key concepts such as financial intermediation, credit allocation, and liquidity creation, highlighting the mechanisms through which credit influences macroeconomic performance. Emphasis is placed on the role of financial institutions in channeling funds from savers to borrowers and the significance of credit availability for business expansion and innovation. The paper also discusses the potential risks of excessive credit growth, including inflationary pressures and financial instability. By synthesizing theoretical perspectives, the study provides a comprehensive understanding of how a well-functioning credit system can support sustainable economic development.

Keywords: Credit system, economic growth, financial resources, banks, investments, lending.

Introduction.

In a market economy, the stable and effective functioning of the financial system is an important factor in the country's economic development. The credit system occupies a special place in this system. Through credit, free funds in society are redistributed and directed to meet the needs of production and consumption. Credit also serves the balanced and sustainable development of the economy. This article provides a detailed analysis of the theoretical foundations of the credit system, its functions and its role in economic growth.

Methods and materials.

The credit system is a cornerstone of modern economic architecture. It provides the mechanisms through which funds are transferred from surplus economic agents (savers) to deficit agents (borrowers), thus facilitating investment, consumption, and production. A well-functioning credit system enables capital mobilization, supports entrepreneurial activity, and mitigates economic shocks.

Understanding the theoretical principles behind credit and how it fuels economic growth is essential for policymakers, economists, and financial institutions aiming to design resilient and inclusive economies.

Credit is the process of providing temporarily free funds to another entity for a certain period of time in exchange for interest. The credit system is a set of institutions (banks, microfinance organizations, insurance companies, etc.), the legal and regulatory framework and technologies that make up this process.

Since the independence of the Republic of Uzbekistan, it has been gradually carrying out consistent reforms to modernize the financial system, liberalize the banking sector, and improve lending mechanisms. The credit system, as the "financial blood vessels" of the country's economy, is becoming the main tool for financing investment projects, supporting entrepreneurship, and creating new jobs.

Credit can be broadly defined as the provision of resources (typically money) by one party to another, where repayment is expected in the future, usually with interest. It is based on trust and the expectation of future income generation.

In economic terms, credit facilitates the exchange of present goods for future goods. It enables the borrower to access resources immediately while promising to return equivalent (or more) value in the future.

Functions of Credit in the Economy

Capital Reallocation: Credit transfers resources from low-productive to high-productive uses, improving overall economic efficiency.

Consumption Smoothing: Households use credit to manage income fluctuations and sustain consumption levels.

Investment Financing: Entrepreneurs and firms rely on credit to finance equipment, R&D, and expansion.

Liquidity Creation: Credit allows businesses to meet short-term obligations and avoid insolvency.

Economic Stabilization: Credit mechanisms can absorb economic shocks

A modern credit system is composed of a variety of institutions, instruments, and legal frameworks that facilitate borrowing and lending activities.

A stable credit system depends on transparent legal systems, efficient credit information sharing (e.g., credit bureaus), and enforceable contracts. Regulatory institutions monitor credit risk, manage systemic exposure, and ensure consumer protection.

Numerous empirical studies and theoretical models underscore the strong linkage between credit availability and economic performance.

One of the most direct impacts of credit on growth is through the financing of investment. Firms use borrowed funds to purchase capital goods, expand operations, and increase productivity. In developing economies, where internal savings are often insufficient, access to credit is a catalyst for industrialization and modernization.

Startups and small businesses typically lack the internal capital to scale their operations. Credit systems—especially when supported by venture capital and SME-focused banks—enable these enterprises to innovate and contribute to job creation. Consumer credit enhances purchasing power, increasing aggregate demand. Higher consumption stimulates production, employment, and income—creating a virtuous cycle of growth. A mature credit system encourages financial inclusion, allowing more people to participate in economic activities. Access to credit empowers marginalized groups, such as women and rural populations, to engage in trade and services, boosting GDP.

High credit growth, especially without adequate risk assessment, may result in loan defaults and bank failures. Unregulated lending can inflate asset prices (e.g., housing bubbles), distorting economic fundamentals.

Large corporations often dominate credit markets, while SMEs and low-income individuals face higher barriers due to lack of collateral or credit history.

In countries like Uzbekistan, recent reforms have liberalized the financial sector. Credit to the private sector has increased rapidly—reaching over 40% of GDP in 2024—due to policies supporting entrepreneurship and investment. Development banks and microfinance programs have played a key role in providing credit to small and medium enterprises (SMEs), resulting in increased employment, export growth, and industrial diversification.

However, challenges such as high interest rates, limited financial literacy, and underdeveloped credit scoring systems persist and require policy attention.

Today, the credit system must ensure not only economic, but also environmental and social sustainability. "Green loans", "social loans" and financing instruments based on ESG (environmental, social, governance) criteria are increasingly expanding.

In cooperation between the state and the banking sector, areas such as financing infrastructure projects, lending for energy-saving technologies, and encouraging women's entrepreneurship are becoming a priority.

Conclusion. The credit system of Uzbekistan serves as an important strategic tool for accelerating economic growth. Loans provided by banks are an important factor in modernizing industry, stimulating entrepreneurship, and improving the social well-being of the population. In the future, it will be possible to further strengthen economic stability by further improving credit policy, digitizing it, and expanding financial inclusion.

The credit system is a fundamental driver of economic growth, functioning as both a financial intermediary and a tool for resource optimization. When well-regulated and inclusive, credit fuels entrepreneurship, raises productivity, and enhances economic resilience.

However, its benefits must be balanced with sound risk management and financial education to prevent systemic crises. Governments and financial institutions must continue to reform, digitize, and democratize credit access to ensure sustainable development.

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