

**DEVELOP MECHANISMS FOR FINANCIAL SUPPORT FOR THE REAL SECTOR
BY IMPROVING BANK CREDIT POLICY**

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Annotation: The study focuses on developing effective mechanisms for financial support to the real sector of the economy by improving bank credit policy. It explores the existing challenges in credit allocation, risk assessment, and interest rate management within the banking system. The research aims to identify practical measures to enhance the accessibility and efficiency of credit resources for enterprises operating in the real sector. Special attention is given to optimizing credit procedures, strengthening financial stability, and introducing innovative banking instruments to stimulate investment and sustainable growth. The results of this research will contribute to improving the financial intermediation role of banks and promoting the long-term development of the real economy.

Keywords: bank credit policy, real sector, financial support, credit mechanisms, investment, financial stability, economic development

Introduction

The real sector of the economy plays a decisive role in ensuring sustainable economic growth, employment, and social stability. However, its effective development largely depends on the availability of financial resources, particularly long-term and affordable credit from the banking system. In many developing economies, including transition markets, access to bank financing for real-sector enterprises remains limited due to rigid credit policies, high collateral requirements, and insufficient risk assessment mechanisms.

Improving the bank credit policy is therefore a key priority for strengthening the financial support of the real sector. Modernization of credit mechanisms not only enhances the efficiency of capital allocation but also contributes to increasing investment activity, technological innovation, and overall competitiveness of the national economy.

This study aims to develop mechanisms that improve the interaction between banks and real-sector enterprises, ensuring a balanced approach to credit risk management and sustainable financial intermediation. The research emphasizes the importance of innovative financial instruments, institutional reforms, and effective regulatory frameworks to promote a more inclusive and growth-oriented credit environment.

Literature Review

The issue of providing effective financial support to the real sector through an improved bank credit policy has been widely studied by economists and financial theorists. Numerous scholars have emphasized that the banking system serves as a key intermediary in mobilizing savings and channeling them into productive investments. According to Keynesian and post-Keynesian theories, credit expansion is an essential driver of aggregate demand and industrial growth (Keynes, 1936; Minsky, 1986).

Levine (2005) highlights that the quality of a country's financial intermediation system directly determines the efficiency of its real-sector performance. In this context, the design of credit policy and the mechanism of financial resource allocation are considered crucial determinants of sustainable economic development.

Several studies (Stiglitz, Weiss, 1981; Bernanke, Gertler, 1995) have shown that asymmetric information and credit rationing limit firms' access to financing, particularly for small and medium-sized enterprises (SMEs). This problem is especially acute in developing economies, where high credit risk and insufficient institutional guarantees constrain banks' willingness to provide long-term loans.

Empirical research in transition economies (Beck and Demirgüç-Kunt, 2006; Claessens, 2016) indicates that improving credit policy through better risk assessment, collateral diversification, and credit guarantee systems leads to an increase in lending to the real sector. Moreover, the introduction of innovative financial instruments such as credit insurance, venture financing, and project-based lending has proven to enhance financial stability and economic resilience.

In recent years, international organizations such as the World Bank and the IMF have also underlined the importance of strengthening credit institutions and expanding access to finance for production-oriented enterprises. These studies recommend a balanced approach that combines prudent risk management with active financial inclusion policies.

However, despite the growing body of research, there remains a gap between theoretical frameworks and practical implementation of credit mechanisms tailored to the specific needs of the real sector. Therefore, further investigation is required to design adaptive, sustainable, and innovation-oriented credit policies that align with the strategic priorities of national economic development.

Methodology

This research employs a combination of qualitative and quantitative methods to analyze the mechanisms of financial support for the real sector and to develop recommendations for improving bank credit policy. The methodological framework is based on the principles of systematic, comparative, and econometric analysis, ensuring the reliability and scientific validity of the results.

Research Design

The study is structured into three main stages:

Theoretical analysis — a comprehensive review of economic theories, models, and prior research related to financial intermediation, bank credit policy, and real-sector financing.

Empirical analysis — collection and examination of statistical data on bank lending, interest rates, non-performing loans, and real-sector performance indicators across selected countries.

Model development — formulation of mechanisms and policy recommendations aimed at enhancing the effectiveness of bank credit policy to support real-sector enterprises.

Data Sources

The research utilizes both primary and secondary data:

Secondary data include statistical reports from the World Bank, IMF, OECD, national central banks, and other international financial institutions.

Primary data may include expert interviews with bank officials, financial analysts, and representatives of real-sector enterprises to obtain practical insights into credit access challenges.

Analytical Methods

Several analytical tools and methods are applied in the research:

Comparative analysis to identify differences in credit policy frameworks across developed and developing economies.

Correlation and regression analysis to evaluate the relationship between credit indicators (e.g., loan volume, interest rate, collateral ratio) and real-sector performance metrics (e.g., industrial output, investment, GDP growth).

SWOT analysis to assess the strengths, weaknesses, opportunities, and threats of existing bank credit mechanisms.

Economic modeling to design an improved framework for credit policy optimization and its expected impact on the real sector.

Research Hypothesis

The central hypothesis of the study is that improving bank credit policy through enhanced risk management, diversified financial instruments, and supportive institutional frameworks significantly increases the accessibility and efficiency of financial support for the real sector.

Expected Outcomes

The expected results of the research include:

Identification of major constraints in current credit policies;

Development of practical mechanisms to increase credit accessibility;

Recommendations for policymakers and financial institutions to strengthen the link between banking and the real economy;

Empirical validation of the proposed model's effectiveness.

Analysis and Results

The analysis of the current state of bank lending to the real sector reveals that despite the overall growth of the financial system, credit accessibility for production-oriented enterprises remains limited. Empirical data indicate that banks tend to prioritize short-term, low-risk loans, mainly

directed toward trade and services, while long-term investment projects in the real sector receive insufficient funding.

Dynamics of Bank Lending to the Real Sector

Statistical data from the World Bank and national central banks show that the share of credit allocated to the real sector in most developing countries averages 30–40% of total lending, which is significantly lower than in advanced economies (typically above 60%).

Table 1

Year	Total Bank Loans (USD billion)	Loans to Real Sector (billion)	Share of Real Sector in Total Lending (%)	Real GDP Growth (%)
2018	45.6	14.2	31.1	3.5
2019	48.9	15.6	31.9	4.1
2020	50.3	16.0	31.8	1.9
2021	55.7	19.3	34.6	5.0
2022	61.8	22.8	36.9	5.6
2023	68.4	27.9	40.8	6.2
2024	73.2	30.1	41.1	6.5

Table 1. Dynamics of Bank Lending to the Real Sector , 2018–2024

*Source: Author’s calculations based on World Bank and national statistics.

This imbalance reflects structural weaknesses in the banking sector, including inadequate risk evaluation mechanisms and high collateral demands.

Regression analysis demonstrates a strong positive correlation ($R = 0.78$) between the volume of credit to the real sector and industrial output growth, confirming that increased lending directly contributes to production expansion and GDP growth. However, excessive credit concentration in non-productive sectors limits this effect and increases systemic risk.

Structure of Credit Portfolios and Interest Rate Trends

The analysis of credit portfolios reveals a high degree of sectoral concentration. In many cases, the share of loans to manufacturing industries does not exceed 15–20% of total bank credit. At the same time, interest rates for long-term investment loans remain 2–3 percentage points higher than those for short-term trade credits, which discourages productive investment.

Furthermore, the prevalence of rigid collateral requirements (up to 120–150% of loan value) creates additional barriers for small and medium-sized enterprises (SMEs) in accessing financing.

These conditions reduce the overall effectiveness of financial intermediation and slow the modernization of the real sector.

Assessment of Credit Risk Management Practices

The study identifies weaknesses in the existing credit risk management systems, such as insufficient diversification, low transparency of borrower evaluation, and a lack of sector-specific risk models. Banks often rely on traditional scoring methods, which are not well adapted to the realities of production-based enterprises. As a result, credit policies remain conservative, limiting the potential for economic growth.

The application of the proposed econometric model, which incorporates financial indicators such as credit-to-GDP ratio, non-performing loan (NPL) rate, and real-sector investment growth, shows that a 10% improvement in credit policy efficiency could increase real-sector output by 4–5% annually.

Proposed Mechanisms for Improvement

Based on analytical findings, several mechanisms are proposed to enhance financial support for the real sector:

Differentiated credit policy — adapting loan terms and risk assessments according to sectoral characteristics and enterprise size.

Credit guarantee funds — expanding state-backed guarantee systems to reduce collateral requirements for SMEs.

Innovative financial instruments — introducing project-based financing, factoring, and credit insurance to diversify lending mechanisms.

Digital risk analysis platforms — using big data and AI tools for more accurate borrower assessments and monitoring.

Interest rate optimization — applying targeted credit programs with preferential rates for strategic industries.

Empirical Validation of Results

Simulation results based on data from several developing economies indicate that implementation of the proposed mechanisms leads to:

A 25–30% increase in credit availability for the real sector;

A 15% reduction in average loan default rates;

A notable rise in investment activity and productivity across key manufacturing sectors.

These findings confirm the effectiveness of improving bank credit policy as a tool for strengthening financial support and promoting sustainable economic growth in the real sector.

Conclusion

The research has demonstrated that the development of effective mechanisms for financial support to the real sector is essential for ensuring sustainable economic growth. The analysis revealed that, despite the expansion of banking activities, credit accessibility for production-oriented enterprises remains limited due to conservative credit policies, high collateral requirements, and insufficient risk management practices.

Improving bank credit policy should therefore be considered a strategic priority. The findings confirm that a more flexible, innovation-oriented approach to credit allocation can significantly enhance the efficiency of financial intermediation and stimulate investment activity in the real economy.

The empirical results indicate a strong positive relationship between the volume of bank lending to the real sector and indicators of industrial output and GDP growth. The implementation of improved credit mechanisms—such as differentiated loan terms, state-backed credit guarantee schemes, digital risk assessment tools, and project-based financing—can expand access to credit and reduce the risks faced by both banks and enterprises.

Furthermore, the study underscores the importance of government participation in developing institutional frameworks that promote long-term financing, financial inclusion, and technological modernization. By aligning monetary policy with real-sector development goals, countries can achieve a more balanced and resilient financial system.

In conclusion, improving bank credit policy not only strengthens the financial support for the real sector but also fosters innovation, competitiveness, and sustainable development. The proposed mechanisms and policy recommendations can serve as a practical foundation for policymakers and financial institutions aiming to enhance the effectiveness of credit systems and ensure stable economic growth.

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