

**INTERACTION BETWEEN IMPROVING THE QUALITY OF FINANCIAL SERVICES  
IN COMMERCIAL BANKS AND PUBLIC FINANCE**

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**Abstract:** This article examines the improvement of financial service quality in commercial banks and the interaction of this process with public finance. It analyzes the development of banking services, state support measures, and the implementation of digital technologies. Based on statistical data, the paper reveals the role of effective cooperation between commercial banks and public finance in ensuring sustainable economic growth.

**Keywords:** Commercial banks, financial service quality, public finance, digital technologies, economic stability.

## INTRODUCTION

In the context of globalization and increasing competition, commercial banks play a crucial role as financial institutions driving economic development. Improving the efficiency of financial resources, financing investment projects, and providing quality financial services to the population and businesses are vital factors for sustainable growth. At the same time, the role of public finance in this process is of great importance. Public finance—through the budget system, taxation, fiscal policy, and financial control—has both direct and indirect impacts on the economy. The effectiveness of commercial banks largely depends on the macroeconomic policy framework, regulatory norms, and government support measures that ensure financial stability.

Within the framework of the Uzbekistan 2030 Development Strategy, particular attention is given to expanding access to financial services, increasing the share of non-cash payments, and promoting digital transformation across the banking sector. The Strategy emphasizes the importance of modernizing the financial infrastructure, developing inclusive banking services, and ensuring transparency and efficiency in public finance management. Additionally, one of the strategic goals is to stimulate entrepreneurship through expanding access to preferential loans, venture financing, and investment guarantees, which directly contributes to enhancing the quality and accessibility of financial services.

Government initiatives such as support for small and medium-sized businesses, investment guarantees, subsidized loans, and the introduction of innovative financial technologies (fintech) are essential for improving the quality of financial services. By focusing on service quality, digital transformation, and customer-centric approaches, banks can enhance customer convenience and service culture. Meanwhile, sound public finance—through effective fiscal policy, digital budgeting systems, and strengthened financial control—ensures financial stability, encourages investment activity, and supports sustainable economic growth.

Thus, the interaction between improving the quality of financial services in commercial banks and strengthening public finance mechanisms creates a synergistic effect that contributes to long-term economic development, effective resource allocation, and the achievement of strategic national priorities outlined in the Uzbekistan 2030 Development Strategy.

## LITERATURE REVIEW

Many scholars have addressed the relationship between banking service quality and public finance as a factor for financial stability and growth.

In the context of Uzbekistan, the “Banking System Reform and Development Strategy (2020–2025)” identifies the digitalization of financial services and integration with public finance as key policy priorities. Studies by Tashkent State University of Economics (2022–2024) note that government-backed preferential loans, guarantees, and fiscal incentives have stimulated service diversification and quality improvement in commercial banks.[3]

Furthermore, OECD (2022) research suggests that strong coordination between fiscal policy and banking regulation fosters macroeconomic stability. Countries with integrated financial planning and performance-based budgeting tend to experience higher banking sector efficiency and greater customer satisfaction.[4]

A study by Elmirezayev (2024) points out that the privatization of state-owned banks and the introduction of transparent dividend policies enhance the quality and competitiveness of financial services. These reforms, supported by prudent fiscal measures, create an environment where commercial banks are motivated to innovate, improve service quality, and contribute more actively to national economic growth.[4]

Overall, the literature reveals that the improvement of financial service quality in commercial banks is inseparable from the sound management of public finance. A balanced interaction between these two spheres ensures financial stability, encourages innovation, and supports inclusive economic development. The consensus among researchers is that effective fiscal management, digital transformation, and institutional transparency together form the foundation for a resilient and customer-oriented banking system.

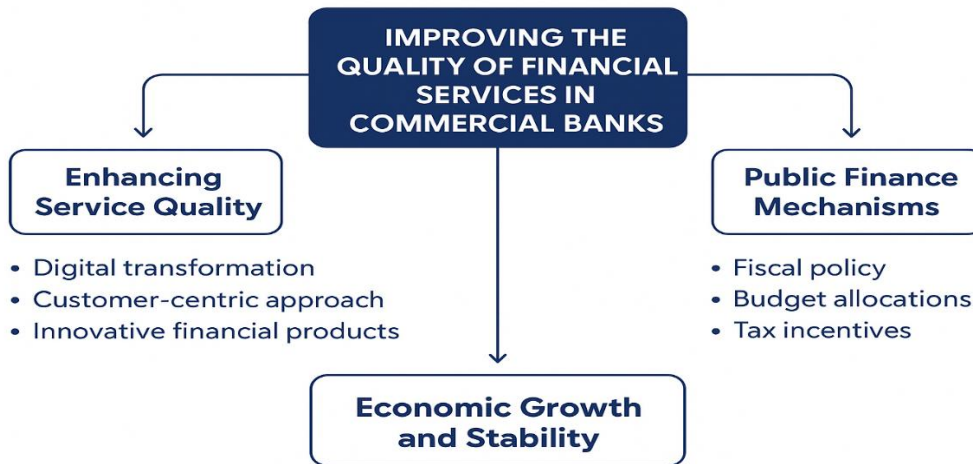
J. Stiglitz in “The Role of the State in the Financial Sector” highlights the necessity of government regulation in the financial system to sustain development [5]. M. Friedman in “Monetary Theory and Policy” examines how monetary policy affects commercial banking operations and service quality [4]. D. North in “Institutional Economics and Development” emphasizes the significance of transparent state institutions in improving the performance of financial systems [6].

In Uzbekistan, the “Banking System Reform and Development Strategy (2020–2025)” defines goals for service quality improvement, digitalization, and expanding financial inclusion [1]. Reports by the IMF and the World Bank provide practical recommendations to enhance transparency, efficiency, and public oversight in financial institutions [2].

#### **RESEARCH METHODOLOGY**

This study applies methods such as scientific abstraction, dialectical research, induction and deduction, monographic observation, system and comparative analysis, expert evaluation, and economic-statistical analysis.

#### **RESULTS AND DISCUSSION**



The diagram illustrates the conceptual interaction between improving the quality of financial services in commercial banks and the role of public finance mechanisms. It shows that both dimensions collectively contribute to achieving economic growth and stability.

#### 1. Enhancing Service Quality in Commercial Banks

This segment highlights the internal transformation drivers that improve the efficiency and accessibility of banking services:

**Digital transformation** – The integration of fintech solutions, mobile banking, online payment platforms, and remote service technologies increases speed, accessibility, and transparency of financial services.

**Customer-centric approach** – Tailored financial products, personalized banking services, and enhanced customer experience foster trust and increase client satisfaction.

**Innovative financial products** – The introduction of microfinance, leasing, factoring, green finance, and insurance services expands financial inclusion and strengthens competitive advantages.

These elements support the modernization of the banking infrastructure, increase operational efficiency, and strengthen banks' ability to meet the needs of both individuals and businesses.

#### 2. Public Finance Mechanisms

This part of the diagram shows how fiscal instruments influence the development of banking services:

**Fiscal policy** – Through tax incentives, interest subsidies, and investment support, the government creates a favorable environment for credit expansion and financial service improvement.

**Budget allocations** – State-funded projects, credit guarantees, and subsidized programs enhance banks' capacity to support targeted sectors such as SMEs, agriculture, and innovation.

**Tax incentives** – Reduced tax burdens enable businesses to expand their activities, leading to increased demand for banking services and greater diversification of loan portfolios.

Public finance plays a crucial role in improving financial accessibility, supporting strategic sectors, and ensuring the long-term sustainability of financial institutions.

The competitive global environment has made the banking sector a major pillar of economic development. As business-oriented financial institutions, commercial banks are closely tied to government economic and fiscal policy.

Public finance—through budget allocations, subsidies, and guarantees affects banking service quality in the following ways:

- Expanding credit portfolios, particularly for SMEs;
- Accelerating the adoption of digital technologies;
- Increasing the geographic reach of banking services;
- Enhancing service quality and developing new financial products.

Table 1.

Development of Banking Services in Uzbekistan [6]

Year	Number of Commercial Banks	Share of Digital Transactions (%)	Total Loan Portfolio (trln UZS)
2020	32	34%	230
2021	33	45%	280
2022	33	55%	350
2023	34	62%	410
2024	34	70%	480

The data reveal that while the number of commercial banks remained relatively stable from 2020 to 2024, there has been a sharp increase in their operational efficiency and service quality. The share of digital transactions more than doubled, increasing from 34% to 70%, indicating rapid digitalization—an essential component of modern financial services. This transformation aligns with the goals of the Uzbekistan-2030 Development Strategy, which emphasizes expanding non-cash payments, improving financial inclusion, and enhancing financial services through digital infrastructure.

Moreover, the total loan portfolio grew at an average annual rate of 15–18%, driven by increased demand for business financing, housing loans, consumer credit, and digital lending platforms. Despite stable institutional numbers, the expansion in loan volumes and digital services signifies improved performance, customer reach, and service quality—elements directly linked to government fiscal support and reforms in monetary and public finance management.

To better understand how public finance supports banking service quality, Table 2 shows preferential lending and state-guaranteed financing trends. Table 2.

State Financial Support (Subsidies and Preferential Loans) [7]

Year	Preferential Loans (trln UZS)	Government-Guaranteed Funds (trln UZS)
2020	8.5	2.3
2021	10.2	3.0
2022	13.8	4.5
2023	15.4	5.1
2024	17.6	5.9

The steady rise in subsidies and state guarantees reflects growing government involvement in stimulating access to finance, especially for SMEs, startups, agricultural producers, and innovative enterprises. These instruments reduce credit risk, enhance banks' confidence in extending long-term and unsecured loans, and encourage financial inclusion among underserved groups such as youth, women entrepreneurs, and rural populations.

Furthermore, as of September 1, 2024, banks with state participation accounted for 66% of total assets, down from 69% in 2023, indicating gradual progress toward privatization and market liberalization. This transition has created a more competitive environment, pushing both public and private banks to improve their service quality, operational efficiency, and digital innovation. A key factor demonstrating market efficiency is the difference in profitability between private and state-owned banks. By the first nine months of 2024, commercial banks earned 9.4 trillion UZS in net profit, with private banks showing 3.5 to 4 times higher profitability than state-owned institutions. Institutions such as Kapitalbank (1.24 trillion UZS), Hamkorbank (1.02 trillion UZS), and Trastbank (0.68 trillion UZS) ranked among the most profitable, while O'zmilliybank led the overall market with 1.35 trillion UZS in profit [10]. This performance confirms that the private sector demonstrates higher adaptability, technological innovation, customer orientation, and profit efficiency.

Privatization remains a strategic priority to boost competition, improve service quality, and strengthen capital markets. If state-owned banks increase dividend payouts to at least 50% of net profit and introduce more frequent dividend distributions (quarterly or semi-annual), they would become more attractive for investors—both domestic and foreign. This would accelerate capital market development and improve liquidity on the secondary securities market.

However, compared to foreign banks—where additional (emission) capital accounts for up to 80% of total equity—in Uzbekistan's state-owned banks, this figure is below 5%, indicating underutilization of capital market tools [11]. Strengthening stock market mechanisms would enable banks to raise long-term funds through equity financing, facilitate public-private partnerships, and reduce dependence on government budget allocations.

In conclusion, the interaction between public finance instruments and commercial banking services creates a mutually reinforcing cycle: government support enhances financial service quality, while an efficient banking sector contributes to stronger fiscal revenues, tax compliance, and sustainable economic growth. Strengthening this synergy will be crucial for achieving the strategic goals of Uzbekistan-2030, particularly in creating a dynamic, inclusive, and digital financial ecosystem.

## CONCLUSION

The research findings demonstrate that improving the quality of financial services in commercial banks is closely interlinked with public financial policy. Government support measures — including subsidies, preferential loans, and guarantees — significantly enhance banks' capacity to expand access to services and improve service quality. Digital transformation, improved customer service, and the expansion of financial inclusion have been key outcomes of effective public finance management. The increasing share of digital transactions and the steady growth of credit portfolios from 2020 to 2024 confirm the positive impact of these reforms.

To further strengthen this process, the following measures are recommended:

- Enhancing cooperation between public finance institutions and commercial banks;
- Expanding digital innovation and fintech solutions;
- Promoting financial literacy among the population.

A stable and transparent fiscal environment will ensure sustainable banking sector development and contribute to Uzbekistan's overall economic progress.

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