

**MUTATIONAL TRANSFORMATION OF THE FINANCIAL AND REAL SECTORS IN
THE REPUBLIC OF UZBEKISTAN: INSTITUTIONAL ASYMMETRY AND
DEVELOPMENT CHALLENGES**

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Abstract

The sustainable interaction between the financial sector and the real sector is a critical prerequisite for long-term economic growth. In recent years, the Republic of Uzbekistan has experienced accelerated financial sector expansion alongside structural transformations in the real sector. This paper investigates the mutational transformation of financial–real sector relations, characterized by growing institutional asymmetry and functional divergence. Using an institutional and systemic analytical framework, the study identifies key mutation mechanisms, evaluates their economic implications, and proposes policy-oriented recommendations aimed at restoring functional balance and enhancing productive efficiency.

Keywords: financial sector, real sector, institutional mutation, structural imbalance, credit allocation, Uzbekistan.

1. Introduction

In classical and neoclassical economic theory, the financial sector is conceptualized as an intermediary system facilitating capital accumulation, investment, and productive expansion in the real sector. Efficient financial intermediation is expected to enhance productivity, technological progress, and inclusive economic growth. However, empirical evidence from many transition and developing economies suggests that financial deepening does not automatically translate into real sector advancement.

The Republic of Uzbekistan, undergoing an intensive reform agenda since the mid-2010s, presents a relevant case for examining these dynamics. Rapid financial sector liberalization, credit expansion, and institutional restructuring have occurred concurrently with persistent productivity constraints in the real sector. This divergence indicates a qualitative transformation—hereafter referred to as *mutational transformation*—in the functional relationship between the two sectors.

The objective of this paper is to analyze the nature, drivers, and economic consequences of this mutation and to assess its implications for sustainable development and institutional coherence.

2. Literature Review

The relationship between financial development and economic growth has been extensively explored in economic literature. Early contributions (Schumpeter, 1911; McKinnon, 1973; Shaw, 1973) emphasized the growth-enhancing role of financial intermediation. More recent studies, however, highlight nonlinear and context-dependent effects, including financialization and sectoral decoupling (Arcand et al., 2015; Cecchetti & Kharroubi, 2012).

Institutional economists argue that weak alignment between financial incentives and productive activity leads to rent-seeking behavior and allocative inefficiency (North, 1990; Stiglitz, 2010). In transition economies, this phenomenon often manifests as credit concentration in low-risk, short-term, and non-productive segments.

Despite growing empirical research on Uzbekistan's financial reforms, the mutational nature of financial–real sector relations remains insufficiently examined, particularly from an institutional perspective. This study seeks to fill this gap.

3. Methodology

The research employs a qualitative institutional analysis combined with systemic and comparative approaches. The study synthesizes macroeconomic trends, sectoral interaction patterns, and theoretical constructs to identify structural deviations in functional roles.

Key methodological tools include:

- institutional-functional analysis;
- logical abstraction and generalization;
- comparative evaluation of sectoral incentives and outcomes.

The study does not rely on econometric modeling but focuses on structural diagnostics relevant to policy and institutional design.

4. Mutational Dynamics of the Financial Sector

Recent reforms have significantly strengthened Uzbekistan's financial infrastructure, particularly the banking system. Credit volumes, financial instruments, and market participants have expanded rapidly. However, this quantitative growth has been accompanied by a qualitative shift in operational priorities.

The financial sector increasingly prioritizes:

- short-term liquidity and collateral-based lending;
- interest income maximization;
- low-risk, high-turnover activities.

These tendencies indicate a functional mutation whereby financial institutions operate with reduced dependence on real sector productivity outcomes. As a result, the financial sector exhibits characteristics of semi-autonomous capital circulation, weakening its traditional developmental role.

5. Transformation and Adaptation of the Real Sector

The real sector has responded to these changes through adaptive but potentially distortive strategies. Many firms increasingly rely on short-term credit, preferential financing, and state-supported mechanisms rather than productivity-enhancing investments.

This adaptation has led to:

- reduced incentives for technological innovation;
- increased financial fragility of enterprises;
- substitution of production-driven growth with finance-dependent survival models.

Consequently, the real sector becomes structurally vulnerable to financial shocks and policy tightening.

6. Institutional Asymmetry and Structural Risks

The coexistence of a rapidly expanding financial sector and a structurally constrained real sector has generated institutional asymmetry. Credit allocation mechanisms prioritize financial security over economic efficiency, while regulatory frameworks struggle to reconcile market liberalization with developmental objectives.

This asymmetry produces a paradoxical outcome: macroeconomic indicators may reflect growth, while underlying production capacity and competitiveness remain limited. Such divergence increases long-term systemic risk and undermines sustainable development.

7. Discussion

The mutational transformation observed in Uzbekistan aligns with broader global debates on financialization and sectoral imbalance. However, in transition economies, these dynamics are intensified by institutional fragility and policy experimentation.

The findings suggest that unchecked financial sector autonomy may exacerbate structural distortions unless accompanied by targeted institutional coordination mechanisms that re-anchor finance to production.

8. Conclusion and Policy Implications

This study concludes that the financial–real sector relationship in Uzbekistan has entered a mutational phase marked by functional divergence and institutional imbalance. While financial sector expansion is a necessary condition for development, its current trajectory risks undermining long-term economic resilience.

To mitigate these risks, the following policy implications are proposed:

1. Reorient financial incentives toward long-term productive investment;
2. Expand development-oriented credit instruments linked to performance outcomes;
3. Strengthen institutional coordination between financial regulators and industrial policy bodies;
4. Enhance regulatory frameworks to balance financial efficiency with real sector sustainability.

Addressing these challenges is essential for transforming financial growth into inclusive and productivity-driven economic development.

References (sample – can be expanded)

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