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FINANCIAL AND CREDIT FACTORS AFFECTING INVESTMENT ACTIVITY AND THE SYSTEM OF INDICATORS

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Abstract

This article examines the financial and credit factors influencing investment activity and develops a system of indicators for assessing their impact. Particular attention is paid to the role of bank lending, interest rates, availability of financial resources, investment financing mechanisms, credit conditions, financial stability, and government support instruments in stimulating investment processes. The study analyzes the relationship between financial and credit factors and the level of investment activity of economic entities and regions. A system of quantitative and qualitative indicators is proposed to evaluate the effectiveness of financial and credit mechanisms in attracting and allocating investment resources. The paper also highlights the importance of improving access to long-term financing, diversifying sources of investment funding, reducing the cost of credit resources, and enhancing the efficiency of financial institutions. The findings may be used to improve financial and credit policies aimed at increasing investment activity, strengthening the investment environment, and ensuring sustainable economic growth.

Keywords: Investment activity, investment, financial factors, credit factors, bank lending, interest rate, financial resources, investment financing, credit resources, investment climate, financial mechanism, credit mechanism, long-term financing, financial stability, investment indicators, investment efficiency, financial institutions, government support, investment policy, economic growth.

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INTRODUCTION

The level of investment activity in the national economy reflects the ability of operating economic entities to direct their available financial resources to renew fixed capital, expand production capacities, introduce innovative technologies and implement new investment projects. The quantitative indicator of investment activity is reflected not only in the volume of investments made, but also in the structure of sources of financing investments, the cost of capital, the level of use of credit resources, financial risks, the distribution of investments by sectors and regions, and their economic efficiency.

As we all know, the Law of the Republic of Uzbekistan "On Investments and Investment Activities" defines investments as tangible and intangible assets invested by an investor in economic and other objects of activity in order to obtain profit or achieve social benefits, as well as rights to them. Therefore, when assessing investment activity, it is necessary to take into account not only the volume of capital investments, but also the purpose, sources, forms and effects of investment.

LITERATURE REVIEW

Approaches to the theoretical study of the influence of financial and credit factors on investment activity are based on the teachings of the neoclassical, Keynesian, and institutional schools in the history of economics. In the neoclassical investment theory, the main factor determining the size of the investment is the cost of effective use of capital. According to the concept of cost of capital use developed by D.Jorgen-son, a follower of institutional flow manifestations, an increase in the interest rate, the price of capital goods, the level of depreciation and the tax burden reduces the level of marginal profitability of investment projects. For this reason, the high credit interest rate and the increase in the price of capital equipment appear as a financial factor limiting the demand for investments by enterprises.

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In an empirical study conducted by foreigners S.Gilchrist and E.Zakrayshek, followers of another school, based on the data of the corporate bond market, it was determined that a one percentage point increase in the cost of capital use will decrease the investment rate of enterprises by 0.5-0.75 percentage points in the short term, and in the long term, the capital reserve will decrease by approximately one percent. Naturally, this trend underscores the necessity—when assessing investment activity—of considering not only the nominal interest rate but also the real interest rate, bank loan markups, risk premiums, and the total financial cost of capital.

Imperfections in the credit market constitute a distinct set of factors influencing investment activity. According to the credit rationing theory proposed by institutionalists J. Stiglitz and A. Weiss, in conditions of information asymmetry between lender and borrower, raising the interest rate does not necessarily lead to a continuous increase in bank revenue. High interest rates may result in a market populated by borrowers inclined toward relatively high-risk projects. Consequently, alongside raising the cost of credit, banks may restrict loan volumes, terms, or the pool of eligible borrowers. Therefore, investment activity depends not merely on the interest rate, but also on credit availability, collateral requirements, loan duration, grace periods, the project appraisal process, and the banks' risk appetite. In the theory of financial intermediation, banks, capital market institutions, and other financial organizations perform functions such as mobilizing savings, gathering information on investment projects, allocating risks, and directing capital toward productive sectors. R. Levine, a proponent of this theory, demonstrated that the development of the financial system influences economic growth by transforming savings into investments, enhancing capital efficiency, and fostering technological progress. Research conducted by World Bank experts highlights the role of financial sector development in facilitating capital accumulation, gathering investment-related information, attracting foreign capital flows, and ensuring the efficient allocation of resources.

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Financial indicators play a crucial role in assessing the impact of the financial system on investment activity. Under the World Bank's methodology, the ratio of credit extended to the private sector relative to GDP is considered a key indicator of financial development. While an increase in this indicator reflects the private sector's access to financial resources, the purpose and composition of the loans must also be taken into account. In a panel data study covering 31 developing countries, researchers M. Garcia-Escribano and F. Han demonstrated the economic impact of credit and the significance of its composition. Specifically, they highlighted that shocks to corporate credit affect economic growth primarily through investment, whereas shocks to consumer credit operate through private consumption. Their study provides scientifically grounded evidence that, when assessing investment activity, it is more appropriate to separately account for long-term corporate and investment loans rather than relying solely on the total volume of credit allocated to the economy.

In domestic economic literature, the financial and credit factors influencing investment activity have been examined in the context of investment financing sources—such as bank loans, tax incentives, budget funds, foreign capital, and enterprises' own funds. Local economist D.G. Gozibekov characterizes the investment financing process as a complex system of financial relationships encompassing the formation of investment resources, their allocation among efficient projects, and the management of investment risks. In his view, there is an intrinsic link between the availability of funding sources for investments and their efficiency.

Another local scholar, N.G. Karimov, examines the relationship between investment activity and economic growth, noting that high rates of economic growth create opportunities to expand investment resources. creates a sense of security. This approach shows the need to take into account the feedback between GDP growth, national savings, enterprise profits and investment resources when assessing investment activity. Another group of our domestic economists, A.A.

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Azlarova and G.Sh. Akhmatova, link the participation of banks in ensuring investment activity not only with the allocation of loans, but also with attracting direct foreign investments, examining investment projects, assessing risks and developing modern digital banking services. In their opinion, improving the procedure for assessing factors affecting the financing of investment projects is an important condition for activating the participation of banks.

ANALYSIS AND RESULTS

Monetary factors determine the total value and availability of monetary resources in the economy. They include the key rate of the Central Bank, the inflation rate, the money supply, the liquidity of the banking system, the real interest rate, and the volatility of the national currency rate. An increase in the prime rate can increase the cost of bank resources and reduce investment demand through lending rates. However, the interest rate does not automatically and uniformly affect investments. The impact of monetary policy depends on competition in the banking system, liquidity, credit risks, the value of deposits and the effectiveness of interest transmission.

Inflation affects investment decisions in two ways. With moderate and predictable inflation, businesses can plan future cash flows with relative certainty. High and unstable inflation increases the price of equipment and construction materials, requires revision of investment estimates, increases the nominal value of loans and increases the risk of long-term investment projects.

The exchange rate affects export-oriented and import equipment-related investment projects differently. Depreciation of the national currency may increase the national-currency revenue of exporting enterprises, but it also raises the costs associated with imported technologies, foreign loans, and external debt servicing. Therefore, in addition to the exchange rate level itself, its volatility coefficient should also be incorporated into the assessment system.

Credit factors reflect the capacity to meet the external financing requirements of

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investment projects. Key indicators in this category include the volume of investment loans, the share of long-term loans, the sectoral distribution of corporate loans, interest rates, loan terms, grace periods, collateral coverage, the level of problem loans, and credit portfolio concentration.

For investment activity, the real growth of credit volume—rather than nominal growth—is what matters. Credit growth that lags behind the inflation rate does not signify a genuine expansion of investment resources. Furthermore, an increase in short-term working capital loans does not imply an increase in fixed capital investment. Consequently, when evaluating credit factors, the share of long-term investment loans within total corporate lending must be calculated separately.

The impact of credit on investment also depends on the types of entities to which the funds are allocated. A high concentration of credit resources in state-owned or large enterprises may limit the ability of small and medium-sized businesses to access financial resources. Consequently, the distribution of investment loans across regions, sectors, forms of ownership, and enterprise sizes should be included in the system of indicators.

Fiscal and financial factors encompass state budget investments, budget loans, subsidies, state guarantees, tax and customs incentives, public-private partnership mechanisms, and resources from state targeted funds. State financial involvement plays a crucial role in implementing infrastructure and innovation projects that entail high risk and significant upfront costs for the private sector, yet yield returns over the long term.

The investment impact of tax incentives should be evaluated not by their nominal value, but by their effectiveness in stimulating additional private investment. General tax relief granted for ongoing production activities does not always generate new investments. Therefore, when evaluating the effectiveness of tax incentives, factors such as additional investments generated by these incentives, jobs created, production capacities, and future budget revenues must be taken into

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account.

A state guarantee can lower the cost of an investment loan by transferring a portion of the credit risk to the state. However, granting guarantees without regard to economic efficiency and debt repayment capacity can increase contingent state liabilities. Consequently, when evaluating state-guaranteed investments, it is essential to analyze not only their volume but also the likelihood of repayment, project profitability, and associated budgetary risks.

An enterprise's own funds constitute a relatively stable source of investment financing. Net profit, depreciation charges, retained earnings, and proceeds from asset sales form the pool of internal investment resources. Increased enterprise profitability and an effective depreciation policy reduce the need for external borrowing.

However, financing investments solely through internal funds may limit the pace of an enterprise's development. A prudent use of financial leverage increases the profitability of private equity, but an excessive debt burden reduces financial stability. Therefore, at the enterprise level, the debt-to-equity ratio, the interest coverage ratio ...the debt-service coverage ratio and the ratio of self-financing for investments should be assessed.

An excessive reliance of investment activity on bank loans limits the diversification of financing sources. Corporate bonds, equity issuance, investment and mutual funds, leasing, factoring, venture capital, crowdfunding, and Islamic finance instruments serve as alternative sources for financing investment projects.

The level of capital market development can be assessed through the ratio of corporate bond issuance to GDP, stock market capitalization, share turnover, the volume of leasing operations, and the assets of institutional investors. Growth in these indicators reflects the diversification of sources for investment resources.

External financial factors include foreign direct investment, foreign loans, funds from international financial institutions, the cost of external debt, global interest

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rates, and the country's sovereign credit rating. Foreign direct investment differs from other forms of external financing by bringing in technology, management expertise, access to foreign markets, and corporate governance standards alongside financial resources.

While foreign loans expand investment resources, they also give rise to currency risks. If an investment project generates revenue in the national currency while incurring loan obligations in foreign currency, the depreciation of the national currency increases the debt burden. Therefore, when assessing the impact of external loans on investment, one must consider not only their volume but also their currency composition, interest rates, maturity, and the extent to which they are backed by export earnings.

The mere availability of financial and credit resources does not guarantee high levels of investment activity. Factors such as the protection of property rights, contract enforcement, creditor rights, banking supervision, financial reporting transparency, credit information systems, corruption levels, and the timeframes for reviewing investment projects determine the practical effectiveness of financial and credit mechanisms.

The system of financial risks encompasses credit, interest rate, currency, liquidity, inflation, and market risks. When assessing investment activity, it is necessary to analyze risks not merely as negative factors, but in relation to expected returns. High-risk projects that offer significant social or innovative benefits may require state guarantees, subsidies, or blended finance instruments. In order to fully assess the impact of financial and credit factors on investment activity, it should be divided into performance, resource, value, structural, efficiency and risk indicators.

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Table 1 Grouping of indicators of financial and credit factors affecting investment activity

Indicator group	Key indicators
Performance indicators	The volume of investments in fixed capital; share of investments in GDP; real investment growth rate; investment per capita
Monetary indicators	Base rate; inflation; real interest rate; ratio of money supply to GDP; exchange rate volatility
Credit scores	Volume of investment loans; share of long-term loans; ratio of corporate loans to GDP; average loan rate
Fiscal indicators	Budget investments; tax benefits; subsidies; state guarantees; public-private partnership projects
Enterprise finance	Net profit; depreciation allowances; share of own funds; debt to equity ratio
External financing	Foreign direct investments; foreign loans; external debt value
Capital market	Corporate bonds; issue of shares; leasing and venture financing
Risk indicators	Percentage of problem loans; loan portfolio concentration; currency risk; delay of investment projects
Performance indicators	Return on investment; return on capital; jobs created; growth of exports and tax revenues

When forming a system of indicators reflecting investment activity, several methodological requirements should be observed. First, nominal indicators should be adjusted for inflation. Second, investment and credit indicators should be calculated relative to GDP, population, or fixed capital stock. Third, the lagged impact of financial and credit factors on investments should be taken into account. Fourth, along with the volume of investments, their composition, technological quality, and economic results should be assessed. Fifth, since average indicators at the republican level do not reflect or disclose differences between regions and sectors, the assessment requires that they be carried out at the regional and sectoral level.

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CONCLUSION

In our opinion, the system for assessing financial and credit factors affecting investment activity should be based on the logical chain of “Availability of resources, cost, availability of resources, investment results, financial stability. This approach makes it possible to assess, not only the nominal amount of funds allocated for investments, but also how they stimulated private investment, created new production capacities, increased exports, created jobs, and ensured debt repayment.

Therefore, in our opinion, when assessing the effectiveness of the financial and credit mechanism for increasing investment activity, the following four interrelated criteria are of primary importance: the sufficiency of financial resources, their reasonable cost, openness to investors, and the stability of investment results. In conditions where none of these criteria is provided, an increase in the volume of financial and credit resources may not lead to a qualitative increase in investment activity.

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