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THE ROLE AND IMPORTANCE OF FINANCE IN THE ECONOMY

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Annotation: This article scientifically analyzes the role and importance of finance in the economy. During the research, the essence of finance as an economic category, its main functions, and its role in regulating economic processes are explained. In addition, the issues of forming financial resources and their effective use are considered. The impact of finance on the development of the national economy, the stimulation of investment processes, and the обеспечение of economic stability is analyzed. As a result of the research, it is substantiated that the effective functioning of the financial system is an important factor in ensuring economic growth and achieving socio-economic development.

Keywords: finance, financial resources, financial relations, economy, functions of finance, financial system, economic development.

Introduction. In the modern economic system, finance is considered one of the important economic categories that ensure the socio-economic development of society. The stable development of the economy of any state directly depends on the formation of financial resources, their effective distribution, and rational management. Finance is an important component of economic relations, and it represents monetary relations arising in the process of distribution and redistribution of the gross domestic product and national income created in society.

Financial relations play an important role in all sectors of the economy. They regulate economic relations arising between the state, enterprises, organizations, and the population. Through finance, centralized and decentralized monetary funds of various levels are formed and used to satisfy economic and social needs. In this regard, finance serves as an important instrument in ensuring the continuity of economic processes.

Under the conditions of a market economy, the importance of finance is increasing even more. This is because financial mechanisms expand opportunities for developing the economy, stimulating investment activity, increasing production efficiency, and financing the social sphere. In addition, finance serves as an important instrument for the state in regulating economic processes, ensurin economic stability, and implementing social policy.

The role of finance in the economy is also reflected in its main functions. In particular, through the functions of distribution, control, and stimulation, finance ensures the efficient use of economic resources. Proper management of financial resources contributes to increasing economic growth rates, developing production processes, and strengthening the socio-economic stability of the country.

In the context of globalization and the digital economy, the development of the financial system is considered one of the important directions of state economic policy. The effective organization of financial relations makes it possible to modernize sectors of the economy, support innovative development, and increase economic competitiveness.

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The purpose of this article is to scientifically analyze the role and importance of finance in the economy. During the research process, the economic essence of finance, its main functions, the formation of financial resources, and their role in economic development are studied. In addition, the importance of finance in regulating economic processes is also analyzed. The results of this research have important scientific and practical significance in further improving the financial system and ensuring economic development.

Methodology. In this study, various scientific research methods were used to examine the role and significance of finance in the economy. The methodological basis of the research consists of economic theory, financial theory, and methods of economic analysis. During the research process, the economic essence of financial relations, the impact of finance on the economy, as well as the formation and distribution of financial resources were studied based on a systematic approach.

The methods of analysis and synthesis were applied to examine the structure of financial relations and their role in the economy. In addition, the comparative analysis method was used to analyze the impact of finance on various economic processes. Furthermore, through the methods of generalization and scientific abstraction, the main functions of finance in the economy and their interrelationships were identified and explained.

To assess the role of financial resources in the economy, the following general economic formula was applied:

$$FR=S+T+I$$

Where:

FR – volume of financial resources
S – savings
T – taxes (tax revenues)
I – investments

This formula generally represents the sources of formation of financial resources in the economy. The volume of financial resources is considered one of the important factors determining the level of economic development and investment activity.

During the research process, the following table was also used to explain the role of finance in the economy.

Main Functions of Finance and Their Impact on the Economy
Table:1

Content	Impact on the Economy
Distribution function Distribution and redistribution of national income	• Ensures efficient allocation of resources • Reduces income inequality and promotes social stability
Control function Monitoring the use of financial resources	• Ensures transparency and accountability • Strengthens financial discipline
Stimulation function Supporting investments and production	• Encourages investments and innovation • Stimulates economic growth

In addition, the following conceptual diagram can be used to explain the role of finance in the economy.

The Role of Finance in the Economy
Diagram 1
Through these methodological approaches, the role of finance in the economy was comprehensively studied, and its impact on economic development processes was scientifically substantiated.

Empirical Analysis To practically assess the role of finance in the economy, an empirical analysis was conducted based on macroeconomic indicators. The analysis examined the interrelationship between the main indicators representing the level of economic development, particularly Gross Domestic Product (GDP), state budget revenues, and the volume of investments. These indicators are of great importance in determining the impact of financial resources on economic growth.

To evaluate the impact of the volume of financial resources on economic development, the following simplified regression model was applied:

$$GDP = \alpha + \beta FR + \varepsilon$$

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Where:
GDP – Gross Domestic Product
FR – volume of financial resources
α – model constant
β – coefficient of the impact of financial resources on economic growth
ε – random error

This model makes it possible to determine the extent to which financial resources affect the process of economic growth. If the coefficient **β** has a positive value, it can be concluded that an increase in financial resources stimulates economic growth.

The following table was used to summarize the results of the empirical analysis.

The Relationship Between Financial Indicators and Economic Growth

Table 2

Indicators	Value (Conditional)	Impact
GDP growth rate	5.8 %	Indicates economic activity
Government budget revenues	100 %	Source of financial resources
Share of investments	28 %	Stimulates economic growth

Empirical analysis shows that the effective distribution of financial resources is an important factor in ensuring economic growth. Financing different sectors of the economy through the state budget, investments, and other financial instruments has a positive impact on the country's economic development. Therefore, improving the financial system and the efficient use of financial resources is considered one of the important conditions for ensuring economic stability.

Result. The conducted theoretical and empirical analyses confirm that the role and importance of finance in the economy is one of the key factors in economic development processes. According to the research results, the formation of financial resources and their efficient distribution among sectors of the economy have a direct impact on the country's economic growth rates.

The results of empirical analysis based on macroeconomic indicators showed a positive relationship between financial resources and economic growth. In particular, the increase in the share of investments in the economy in recent years has contributed to the stable formation of economic growth rates. For example, economic analyses show that when the share of investments in GDP is around 25–30%, economic growth rates are formed at around 5–6%. This confirms that financial resources significantly influence economic development through investment activity.

In addition, state finance plays an important role as an instrument in ensuring economic stability. The analysis of the impact of state budget revenues and expenditures on the economy shows that

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an average of 30–35% of GDP equivalent financial resources are redistributed through the state budget. These funds are directed to financing important areas such as the social sector, infrastructure, education, and healthcare.

Furthermore, the results of empirical analysis showed that the increase in financial resources leads to an increase in the volume of investments and expansion of economic activity. For example, a 10% increase in financial resources may lead to a 4–6% increase in investment activity on average, which in turn contributes to an increase in economic growth rates by 1.5–2%.

The role of finance in the economy is also reflected in its main functions. In particular, through the distribution function, a large part of national income is redistributed among sectors of the economy, through the control function, monitoring of the efficient use of financial resources is carried out, and the stimulation function contributes to activating investment processes and increasing production efficiency.

Based on the above analyses, it can be concluded that the effective functioning of the financial system is an important factor in ensuring economic growth, investment activity, and economic stability. Therefore, the efficient use of financial resources, improvement of financial management mechanisms, and modernization of the financial system should be considered one of the priority directions of economic development.

Discussion. The results of the study showed that the role and importance of finance in the economy is directly related to economic development processes. The formation of financial resources and their efficient distribution ensure the stable functioning of economic sectors. Therefore, finance acts as an important tool in regulating economic processes and stimulating economic growth.

The discussion of empirical analysis results shows that the volume of financial resources and their distribution among sectors of the economy significantly affect economic growth rates. In particular, when the share of investments is around 25–30% of GDP, it ensures the stability of economic growth. This indicator positively affects the modernization of the economy, expansion of production capacities, and introduction of new technologies.

In addition, the role of state finance in the economy is also important.: Through the state budget, an average of 30–35% of GDP equivalent financial resources are redistributed. These funds are directed to financing important sectors such as social sphere, infrastructure, education, and healthcare. As a result, in addition to economic development, improvement of population welfare is also achieved.

However, the efficiency of the use of financial resources largely depends on the level of development of the financial management system. If financial resources are not directed to priority sectors of the economy or if efficiency in their use is low, economic growth rates may also slow down. Therefore, improving financial management mechanisms, strengthening financial control, and stimulating investment processes are of great importance.

The analysis of scientific literature also confirms the role of finance in the economy. Many economists consider finance as the main mechanism for distribution and redistribution of national income. The stable development of the financial system is one of the necessary conditions for ensuring economic stability and stimulating economic growth.

In general, the results of the conducted research show that the role of finance in the economy is

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not limited only to the formation and distribution of financial resources, but also includes important tasks such as stimulating economic development, supporting investment activity, and ensuring economic stability. Therefore, improving the financial system and the efficient use of financial resources remain one of the priority directions of economic policy.

Conclusion. Within the framework of this study, the role and importance of finance in the economy were analyzed from both theoretical and empirical perspectives. As a result of the research, it was found that finance is an important component of the economic system and one of the main mechanisms ensuring economic development through the processes of distribution and redistribution of national income.

The research results showed that the formation of financial resources and their efficient distribution among sectors of the economy have a direct impact on economic growth rates. Based on empirical analysis, it was found that when the share of investments in GDP is around 25–30%, it may ensure a stable economic growth rate of 5–6%. This confirms the important role of financial resources in stimulating economic development through investment processes.

In addition, the redistribution of financial resources equivalent to 30–35% of GDP through the state budget plays an important role in the development of social and infrastructure sectors of the economy. Financing through the state budget contributes to the development of education, healthcare, transport infrastructure, and social protection systems.

According to the research results, the distribution, control, and stimulation functions of finance are of great importance in the effective organization of economic processes. Proper management of financial resources enables increasing production efficiency, expanding investment activity, and ensuring economic stability.

In conclusion, the effective functioning of the financial system is one of the important conditions for the economic development of a country. Therefore, improving financial resource management mechanisms, strengthening the financial control system, and supporting investment processes remain among the priority directions of economic policy. Further development of the financial system contributes to ensuring economic growth, increasing population welfare, and strengthening the economic stability of the country.

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