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THE IMPORTANCE OF FINANCIAL LITERACY IN SOCIO-ECONOMIC DEVELOPMENT OF UZBEKISTAN

Allayarov Sardor Frunzeyevich,
Student of Tourism and economics faculty,
Urgench State University

E-mail: sardor.allayarov@mail.ru

Yusupova Indira Rustamovna,
Student of Tourism and economics faculty,
Urgench State University

E-mail: indirayusupova01@gmail.com

Annotatsiya: Ushbu maqola moliyaviy savodxonlikning mamlakatimiz ijtimoiy-iqtisodiy rivojlanishidagi rolini tahlil qiladi va shuningdek, maqolada aholining moliyaviy savodxonligini oshirishga qaratilgan taklif va tavsiyalar keltirilgan.

Kalit so'zlar: aholi, ijtimoiy-iqtisodiy rivojlanish, moliya, moliyaviy ta'lim, tasarrufidagi daromad.

Аннотация: В статье анализируется роль финансовой грамотности в социально-экономическом развитии нашей страны, а также даются предложения и рекомендации, направленные на повышение финансовой грамотности населения.

Ключевые слова: население, социально-экономическое развитие, финансы, финансовое образование, располагаемые доходы.

Annotation: This article analyzes the role of financial literacy in the socio-economic development of our country and also, provides proposals and recommendations aimed at improving the financial literacy of the population.

Keywords: population, socio-economic development, finance, financial education, disposable income.

Introduction. It is true that each person makes a number of decisions throughout their daily lives, which can be social or economic as a whole because at a time when globalization is on the rise, people's needs are growing day by day, and products and services aimed at maximizing these needs are also being offered by national and international business entities. In such processes, each person must make a decision in such a way that he or she fully satisfies his/her needs and receives maximum utility for each unit of money which is spent on. Interestingly, if we compare final consumption expenditures, including both private and government consumption, in a global level, \$2,21 trillion was spent on total consumption globally in 1970, the figure increased radically in the next three decades, reaching to \$25,5 trillion. In 2019, the total amount of final consumption expenditures accounted for \$64,269 trillion which was 2,5 times greater than it was in 2000 [5,6]. Another astonishing data is that people with low-income in developing countries spend roughly five trillion US dollars per year which is higher than the spending of the population with high income [8]. Relying on the data, it is clear that the effective spending of income is more important in developing countries. Thus, one of the important tasks and objectives of most countries, namely

developing countries today is to implement social, economic and foreign policies that ensure sustainable economic development in the long run. Of course, achieving this goal requires a number of changes in all spheres of life in the country such as structural changes, transition to a new form of producing and delivering goods (services). In this regard, countries categorically implement their policies taking into account economic and social factors. As we mentioned above, one of such factors is the level of financial literacy of the population, which means that it is highly important for the population to use and control their income effectively and correctly over a period of time. This is because the inability of the population to spend their income wisely leads to a number of negative problems, such as poverty. That is why it is essential to increase the financial literacy of the population in order to avoid the possible negative consequences which may occur. Effective spending of their income and right financial decisions make people's life better. The higher level of financial literacy guarantees exact planning of consumption and savings, investing in retirement, optimization of economic decision making and in the long run it means an opportunity to enter financial markets, become investors and get the benefits of passive income.

Literature Review. Nowadays it is highly possible to come across terms like financial literacy, financial capability and financial well-being in many economic literature and scientific journals. Not surprisingly, these terms are often interpreted as synonyms or the words that have similar definition. But each of these terms has a different meaning. If we analyze the above mentioned terms, the first of them is financial literacy which is the primary stage of financial knowledge. Over a period of time, population may increase their financial literacy in various ways and reaches the level of financial well-being in the long-run (Figure 1).

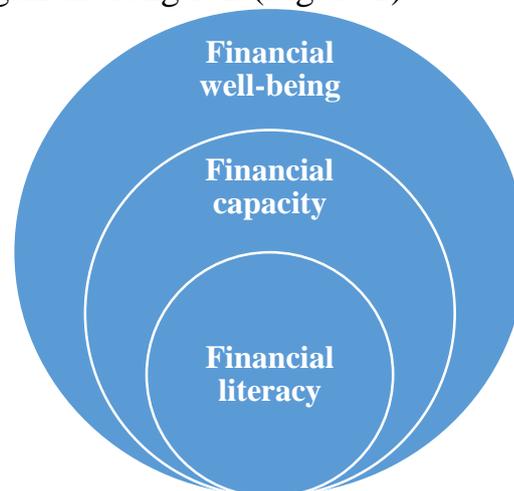


Figure 1. Transition of financial knowledge from primary to advanced level

Source: Created by the authors

In this regard, financial literacy is explained by The President's Advisory Council on Financial Literacy as a group individual abilities of people which lets them use their existence financial resources effectively [4].

According to Elizabeth Johnson, the professor of Washington University and Margaret S. Sherraden, a research professor of University of Missouri, St. Louis, financial capacity is a broader concept that refers not only to people's financial



knowledge and skills (including financial literacy) but also to their interactions with financial institutions and markets [1].

Finally, financial well-being, in turn, is the highest level of financial knowledge (including both financial literacy and capacity) that means financial freedom and security of individuals over the period of times. People are considered as a financial well-being when they control their finances in a daily or monthly basis, be able to accomplish their financial goals and have financial capacity to deal with a financial shock [3].

Based on the above-mentioned definitions, we can conclude that financial literacy is a set of behaviors and skills related to effective decision-making in a number of financial processes that help to allocate the existential disposable income of households correctly and rationally.

Research Methodology. A number of methods were used during the research, including: descriptive, case studies, comparative analysis, statistical grouping, and synthesis.

Analysis And Results. According to our opinion, formation of financial literacy differs in different stages of human's life. To clarify, it can be clearly seen from the figure is that the acquisition of financial literacy is divided into 3 general stages. At the initial stage, each person tries to analyze and imitate the financial behavior of family members and others, and in the process, through advice from parents on the management of the primary financial resources and through a number of school subjects, such as Economics for Kids people can form their initial knowledge in finance and economics. In the next stage, the level of understanding of financial issues of individuals deepens a bit, which people learn a number of special subjects, such as Financial Management, Financial Analysis with being involved in higher education institutions. Besides, they also increase their knowledge by doing internship programs or apprenticeships in which they can see how theories are applied into real-world settings. And also, the age of people at this stage will be around 16-25 years old, they can also increase their financial literacy level by spending their money as they wish. In this case, each wrong decision will be a lesson for the next decision or it is simply called learning by mistakes. The last stage is one of the important stages in the formation of financial literacy. At this stage, individuals are considered to have sufficient knowledge and skills, to this level they have gained experience by making many right or wrong financial decisions in daily life. Individuals are either employed in the public and private sectors as 'a salaried employee' or start their own businesses. The difference from other stages is that individuals shape their financial knowledge through being more involved in practice. With having extra income, individuals can possible invest their money in business projects or risk-free deposits to get passive income (Figure 1).

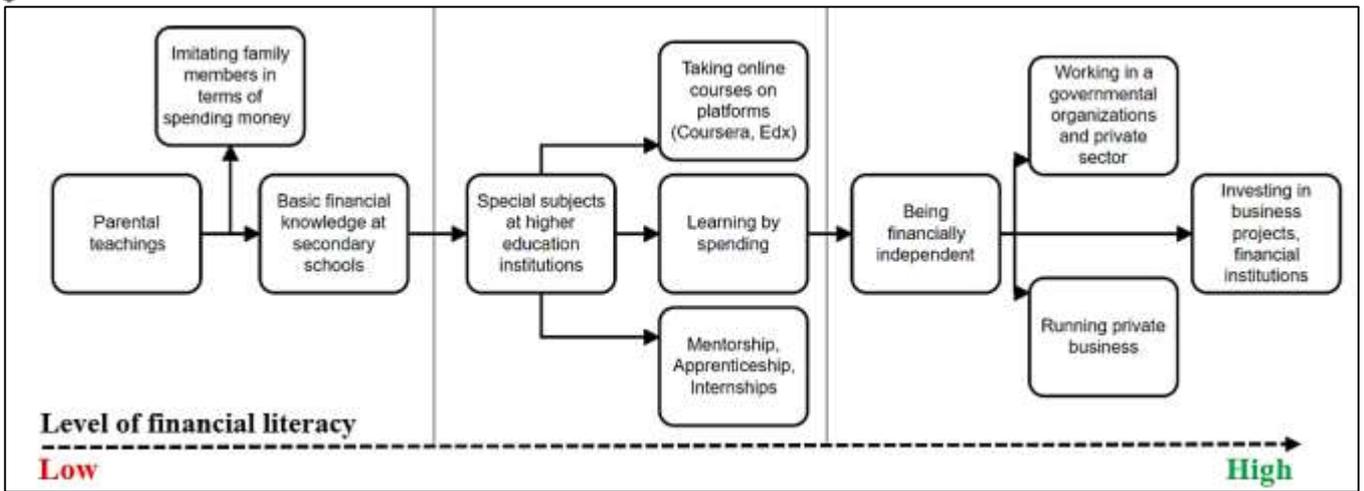


Figure 2. Formation of Financial literacy

Source: Created by the authors

The results of the analysis show that the low level of financial literacy among the population is explained by a number of factors:

- the difficulty of specific terms or glossaries used in financial activities and processes such as compound interest;
- problems with math skills and statistics which make it difficult to deal with Future Value, Present Value, PI (Profitability Index);
- lack of initiatives, special programs and institutions that are in charge of increasing financial literacy in the country.

As we mentioned above, low levels of financial literacy may likely cause some possible socio-economic problems in the country or higher levels of it may minimize the negative consequences of them as there is a relationship between financial literacy and socio-economic indicators. In their article, Uuriintuya Batsaikhan and Maria Demertzis prove this view. They determine a negative relationship between financial literacy rate and inequality by analyzing European countries (figure 3).

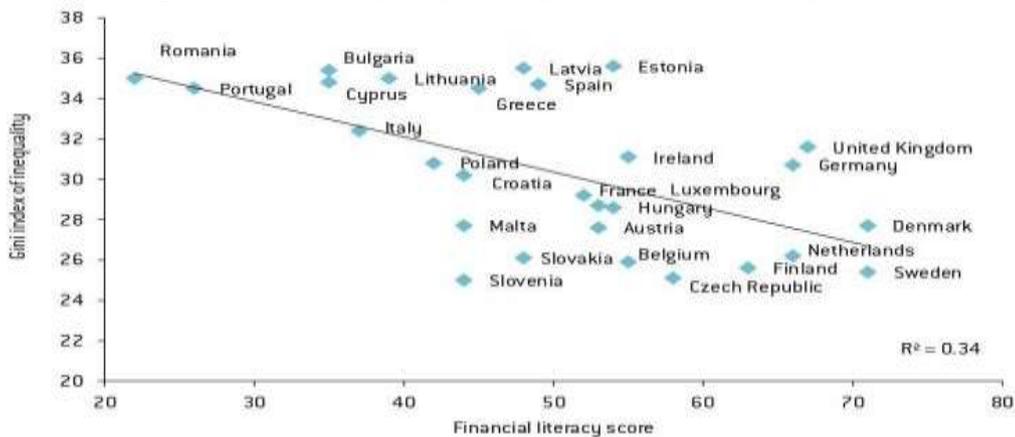


Figure 3. Financial literacy rate and inequality in European countries [2]

From the figure, it is clear that countries with higher level of financial literacy rate among the population have lower level of inequality because the population of these countries can use and plan their disposable income effectively. Interestingly, Council for Economic Education refers that some young adults in most countries unlikely carry out credit card debt due to financial education they receive [7].



Conclusions. Based on the results of the research and analysis, we believe that the systematic implementation of the following proposals and measures in the country will significantly increase the level of financial literacy of the population in the future:

- a certain month should be recognized by the state as the "Financial Literacy Month" in the Republic of Uzbekistan, that is to say, during this month there will be held events and special seminar-trainings which are directed at outlining the importance of financial literacy in individual's life;
- creating a 24/7 call-center on the website www.finlit.uz, developed by the Central Bank of the Republic of Uzbekistan. This call-center will be established at each branch of the Central Bank, which will allow the population and business entities to get valuable pieces of advice to their questions or problems in terms of finance from financial experts and specialists;
- effective integration of financial education into schools and secondary vocational colleges, this means introducing a special subject that teaches students fundamental financial skills according to their age-level. Also, creating and implementing of an interactive mobile application and entertainment games aimed at increasing basic financial knowledge of younger generation of the country;
- developing mechanisms for state support of non-governmental and non-profit organizations and private businesses that are involved in promoting and increasing financial literacy among the population.

In conclusion, increasing the population's financial literacy is essential for the country's economy in the long run, which can probably help increase the efficiency of the population's use of financial services in the age of globalization. Besides, the population will probably learn how to use and spend their disposable income effectively. Even more important, the increase in the level of financial literacy in the country over the years will pave the way for mitigating income inequality in the country.

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