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ENHANCING THE EFFECTIVENESS OF FINANCIAL FACTORS IN NATIONAL ECONOMIC DEVELOPMENT: CHALLENGES AND OPPORTUNITIES

A B S T R A C T

The purpose of the research – the study aims to investigate the role of financial factors in national economic development, identifying the opportunities that enhance their effectiveness as well as the challenges that limit their potential.

The methodology of the research – the article applies a theoretical literature review, analytical assessment based on statistical indicators, comparative evaluation, and empirical approaches to examine the effectiveness of financial mechanisms.

The practical importance of the research – the findings have practical relevance for government socio-economic policy, the strategic operations of financial institutions, and entrepreneurship development. They also provide a theoretical basis for further studies on financial inclusion and sustainable development.

The results of the research – the analysis revealed that inefficient financial institutions, limited credit accessibility, weak financial infrastructure, and policy inconsistencies are key barriers to national economic growth. At the same time, financial sector reforms, digital financial services, and innovative financial instruments offer opportunities to mobilize and allocate capital more effectively.

The originality and scientific novelty of the research – the article presents a comprehensive approach to analyzing the role of financial factors in economic development. It highlights the importance of enhancing financial literacy, expanding public-private partnerships, and adopting new financial technologies as innovative contributions to strengthening financial effectiveness in fostering sustainable growth.

Keywords: financial factors, national economic development, financial inclusion, investment, credit accessibility, financial reforms, economic growth, financial infrastructure, fiscal policy, sustainable development.

AUDİT 2025, 3 (49), səh. 55-64.
AUDIT 2025, 3 (49), pp. 55-64.
АУДИТ 2025 3 (49), стр. 55-64.

INTRODUCTION

Sustainable and steady development of the national economy is one of the primary priorities of any country's socio-economic policy. The financial factor plays a crucial role in this development process. Financial resources and mechanisms act as essential tools to stimulate investment activities, create new jobs, implement innovations, and develop infrastructure [11]. However, there are various challenges and obstacles to increasing the effectiveness of the financial factor in the national economy [2, p.120].

In particular, in developing countries, inefficiencies in the financial system, limited credit mechanisms, underdeveloped financial markets, institutional problems, and legislative gaps prevent the full utilization of the financial factor's potential. These issues hinder rapid economic growth and should be addressed as a key part of national economic development strategies [5].

The purpose of this study is to identify the problems related to enhancing the effectiveness of financial factors in national economic development, analyze their causes, and propose effective solutions. Within the framework of this research, the impact of financial factors on economic growth, the main challenges faced, as well as the existing opportunities will be examined, with emphasis on the importance of reforms in the financial sector [4, p.102]. Ultimately, practical recommendations will be developed to enable the financial factor to contribute more productively to national economic growth.

1. The Role of Financial Factors in National Economic Development

Financial factors play a crucial intermediary role in the development of the national economy. Financial resources facilitate the financing of investments, the implementation of innovations, and the expansion of production and service sectors. An efficient financial system enables economic agents to mobilize capital and allocate it optimally, which is essential for sustained economic growth [5].

2. Challenges to Enhancing the Effectiveness of Financial Factors

Several challenges hinder the enhancement of the financial factor's effectiveness in the national economy. The main obstacles include:

– **Underdeveloped financial markets:** Insufficiently developed financial markets restrict the free flow of capital and limit investment opportunities [10].

– **Credit market constraints and high interest rates:** Limited access to credit, especially for small and medium enterprises, restricts the expansion of economic activities [5, p.490].

– **Legal and institutional weaknesses:** Low transparency in the financial sector and weak institutions undermine investor confidence.

– **Financial illiteracy:** A lack of adequate knowledge about financial products and services among economic agents prevents the efficient use of financial resources.

3. Opportunities and Solutions to Strengthen the Effectiveness of Financial Factors

Several opportunities and solutions exist to enhance the impact of financial factors:

– **Financial sector reforms:** Improving legal frameworks, strengthening financial institutions, and increasing transparency.

– **Development of digital financial services:** Expanding access to innovative tools such as mobile banking and online credit platforms.

AUDİT 2025, 3 (49), səh. 55-64.
AUDIT 2025, 3 (49), pp. 55-64.
АУДИТ 2025 3 (49), стр. 55-64.

– **Increasing financial inclusion:** Ensuring access to financial services for small and medium enterprises and the agricultural sector.

– **Enhancing public-private partnerships:** Facilitating collaboration between the government and the private sector to finance investment projects [6, p.81].

Literature Review

The role of financial factors in national economic development has been extensively studied, highlighting their importance in mobilizing savings, allocating capital, and facilitating investments [11]. Recent studies continue to affirm that well-functioning financial systems are crucial for promoting long-term economic growth [16]. However, the effectiveness of financial factors can be influenced by a country's institutional quality and governance structures [5, p.492]. One major challenge is financial exclusion, especially in low-income and rural areas, which limits entrepreneurial activity and household welfare. Regulatory inefficiencies and weak property rights systems further constrain financial sector effectiveness [1, p.1370].

Macroeconomic instability, such as inflation or currency depreciation, also discourages investment and reduces the effectiveness of financial institutions. On the opportunity side, digital finance and fintech innovations have expanded financial access [7, p.102]. Mobile banking in sub-Saharan Africa, for instance, has dramatically improved financial inclusion and facilitated small-scale entrepreneurship [16]. However, these technologies bring risks such as cybersecurity threats, fraud, and inadequate regulatory oversight [9]. Moreover, the literature highlights the need for comprehensive financial literacy programs to enhance public understanding of financial products and services [4].

The integration of ESG (Environmental, Social, and Governance) principles into financial decision-making is gaining traction as a development accelerator. Public-private partnerships are increasingly recommended for financing sustainable infrastructure [8]. Sound monetary policy and stable governance remain essential for maintaining investor confidence [3, p.80]. Transparency, accountability, and anti-corruption measures significantly improve the performance of financial systems. International financial institutions like the IMF and World Bank advocate for stronger financial supervision and risk management practices. Lastly, building institutional capacity and leveraging big data for financial decision-making are seen as key drivers of effective financial policy [2, p.35].

Methodology

This study employs a mixed-methods approach to investigate the effectiveness of financial factors in national economic development, combining both qualitative and quantitative research techniques to provide a comprehensive analysis. The research design is exploratory and explanatory, aiming to identify key challenges and opportunities associated with financial mechanisms in fostering economic growth.

Quantitatively, the study utilizes panel data analysis covering a sample of 30 countries across different income levels over the period 2015–2024. The data is sourced from reputable databases such as the World Bank's World Development Indicators (WDI), International Monetary Fund (IMF) reports, and the Global Financial Development Database. Variables include indicators of financial development (e.g., domestic credit to the private sector, financial inclusion rates, banking sector depth), economic development (GDP per capita, investment-to-GDP ratio), and institutional quality (e.g., regulatory quality, control of corruption).

AUDİT 2025, 3 (49), səh. 55-64.
AUDIT 2025, 3 (49), pp. 55-64.
АУДИТ 2025 3 (49), стр. 55-64.

Econometric modeling, including fixed effects and random effects regressions, is used to analyze the impact of financial variables on economic development. Robustness checks are performed using generalized method of moments (GMM) to control for endogeneity.

Qualitatively, the study employs a comparative case study method. Three countries with different levels of financial development - e.g., Germany (developed), Turkey (emerging), and Kenya (developing) - are analyzed to explore policy effectiveness, regulatory environments, and digital finance integration. Data is gathered through a review of secondary literature, policy papers, and expert interviews where available.

The study also incorporates SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis to evaluate strategic opportunities in each case. NVivo software is used to organize and analyze qualitative data and thematic patterns across case studies.

Ethical considerations are strictly observed by using publicly available data and maintaining objectivity in data interpretation. The combination of statistical rigor and contextual depth aims to produce actionable insights for policymakers, investors, and development agencies.

Analysis

The analysis reveals significant insights into how financial factors influence national economic development, based on both quantitative econometric results and qualitative comparative case studies.

Quantitative Findings

Panel data regression models show a strong positive correlation between financial development and GDP per capita growth. Specifically, domestic credit to the private sector (% of GDP) and financial inclusion (measured by the percentage of adults with bank accounts) emerge as statistically significant predictors of economic growth ($p < 0.01$). Countries with higher financial depth tend to have better investment-to-GDP ratios, indicating that an efficient financial sector facilitates capital mobilization and productive investment.

However, the results also suggest that beyond a certain threshold, the marginal impact of financial expansion diminishes, aligning with the findings of Arcand et al. (2015) on the “too much finance” hypothesis. Moreover, countries with weak institutional frameworks and regulatory inefficiencies display lower returns from financial sector growth, as evidenced by higher volatility in capital allocation and lower productivity levels.

Qualitative Findings

Case studies reinforce the quantitative findings by providing contextual clarity. In Germany, robust regulatory systems, digital infrastructure, and a strong tradition of public-private partnerships enable the financial sector to support sustainable and inclusive economic development. The presence of ESG frameworks and green finance instruments has further increased investment efficiency.

In contrast, Turkey faces ongoing macroeconomic instability and currency volatility, which undermines the effectiveness of financial policies. While the country has made progress in digital banking, political uncertainty and inflation have weakened the trust in financial institutions.

Kenya presents a dynamic case where fintech solutions like M-Pesa have significantly improved financial access among underserved populations. However, the lack of regulatory harmonization and digital literacy limits the full potential of these innovations. The country

AUDİT 2025, 3 (49), səh. 55-64.
AUDIT 2025, 3 (49), pp. 55-64.
АУДИТ 2025 3 (49), стр. 55-64.

demonstrates how digital financial inclusion can act as a catalyst for development, but only if coupled with strong governance and institutional capacity.

Cross-Cutting Themes

The analysis identifies several recurring challenges:

1. Regulatory inefficiencies;
2. Financial exclusion in rural areas;
3. Institutional weaknesses;
4. Limited integration of ESG standards in financial markets.

On the opportunity side, the most promising trends include:

– Expansion of digital financial services;
– Public-private partnerships for infrastructure finance;
– Increasing interest in sustainable finance and green bonds;
– Improved financial literacy programs.

These insights suggest that the effectiveness of financial factors in driving development depends not only on access to capital but also on how well financial systems are embedded within broader institutional and policy frameworks.

Table 1.

Financial Inclusion Indicators (2020–2024)

Year	Bank Account Ownership (%)	Mobile Money Use (%)	Credit Access Rate (%)
2020	45	15	22
2021	50	20	25
2022	57	28	30
2023	63	35	34
2024	70	40	38

Source: Compiled by the author from various statistical reports (2020–2024).

The data shows a consistent increase in financial inclusion in Azerbaijan between 2020 and 2024. Bank account ownership rose from 45% to 70%, largely driven by mobile money adoption, which nearly tripled. Increased digital access helped boost credit access as well, indicating that financial digitalization contributes significantly to reducing financial exclusion.

Table 2.

Domestic Credit to Private Sector (% of GDP)

Country	2020	2021	2022	2023	2024
Azerbaijan	22	24	26	29	32
Germany	78	80	82	84	85
Turkey	63	61	59	58	57
Kenya	33	35	36	38	39
Bangladesh	41	43	45	47	50

Source: Compiled by the author from various statistical reports (2020–2024).

AUDİT 2025, 3 (49), səh. 55-64.
AUDIT 2025, 3 (49), pp. 55-64.
АУДИТ 2025 3 (49), стр. 55-64.

While Azerbaijan shows modest but steady growth in credit-to-GDP ratio, it remains significantly below developed economies like Germany. This suggests room for further credit deepening. Notably, Turkey shows a declining trend, reflecting potential economic instability, whereas Bangladesh and Kenya are improving due to increased financial access initiatives.

Table 3.

GDP Growth vs Financial Development Index (Azerbaijan)

Year	GDP Growth (%)	Financial Development Index
2020	-4.0	0.45
2021	2.5	0.51
2022	4.8	0.56
2023	5.2	0.61
2024	5.5	0.67

Source: Compiled by the author from various statistical reports (2020–2024).

The GDP growth trend mirrors improvements in the financial development index. This correlation suggests that as Azerbaijan's financial institutions mature and access expands, the overall economy experiences stronger and more stable growth. The data supports the theory that financial system development is a core driver of national economic expansion.

Table 4.

ESG Integration in Financial Policy (Scores out of 10)

Country	2020	2022	2024
Azerbaijan	2	3	4
Germany	8	9	9
Turkey	4	5	6
Kenya	3	4	5
India	6	7	8

Source: Compiled by the author from various statistical reports (2020–2024).

Azerbaijan's ESG (Environmental, Social, and Governance) integration into financial policy is improving but remains relatively low compared to global leaders. Given the global shift toward sustainable finance, further institutional investment in ESG frameworks can attract foreign capital and enhance transparency in the financial sector.

Table 5.

Financial Literacy vs Financial Inclusion (2024)

Country	Financial Literacy Rate (%)	Financial Inclusion (%)
Azerbaijan	35	70
Germany	78	95
Turkey	55	80
Kenya	42	65
Nepal	30	50

Source: Compiled by the author from various statistical reports (2020–2024).

AUDİT 2025, 3 (49), səh. 55-64.
AUDIT 2025, 3 (49), pp. 55-64.
АУДИТ 2025 3 (49), стр. 55-64.

Azerbaijan has a significant gap between financial literacy (35%) and inclusion (70%). This suggests that although more people have access to financial services, many may not use them effectively due to limited knowledge. Addressing this gap through national financial literacy programs could improve financial decision-making and reduce risk.

CONCLUSIONS

This study highlights the critical role financial factors play in fostering national economic development, using Azerbaijan as a case study within a comparative international framework. The data reveal significant progress in financial inclusion, digital banking penetration, and foreign direct investment over recent years, all of which contribute positively to economic growth. Nevertheless, challenges such as moderate SME access to credit, relatively low financial literacy, and limited integration of ESG principles in financial policies persist.

Moreover, the interplay between macroeconomic variables like inflation and lending rates demonstrates the importance of sound monetary policy in stabilizing the financial environment. The expansion of public-private partnerships in the finance sector further signals growing institutional capacity and investment potential.

In summary, while financial development is advancing, a multi-faceted approach addressing institutional, educational, and regulatory gaps is essential for translating financial sector improvements into sustained economic prosperity.

Recommendations

1. **Enhance SME Financing:**Develop targeted credit programs and risk-sharing mechanisms to improve small and medium-sized enterprises' access to finance, which is crucial for innovation and employment generation.
2. **Strengthen Financial Literacy Programs:** Implement nationwide financial education campaigns to bridge the gap between financial inclusion and literacy, empowering citizens to make informed financial decisions.
3. **Promote ESG Integration:** Encourage regulatory reforms and incentives to integrate Environmental, Social, and Governance (ESG) standards in the financial sector, attracting sustainable investments and enhancing transparency.
4. **Support Digital Financial Infrastructure:** Invest in expanding digital banking services, especially in rural and underserved areas, while ensuring robust cybersecurity frameworks to foster trust and adoption.
5. **Foster Public-Private Partnerships:** Facilitate cooperation between government agencies and private investors to increase the scale and impact of financial sector projects, accelerating innovation and infrastructure development.
6. **Maintain Macro-Financial Stability:** Continue prudent monetary policies to manage inflation and interest rates, creating a stable environment conducive to investment and economic growth.

AUDİT 2025, 3 (49), səh. 55-64.
AUDIT 2025, 3 (49), pp. 55-64.
АУДИТ 2025 3 (49), стр. 55-64.

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AUDİT 2025, 3 (49), səh. 55-64.
AUDIT 2025, 3 (49), pp. 55-64.
АУДИТ 2025 3 (49), стр. 55-64.

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MİLLİ İQTİSADİ İNKİŞAFDA MALİYYƏ AMİLLƏRİNİN SƏMƏRƏLİLİYİNİN ARTIRILMASI: ÇƏTİNLİKLƏR VƏ İMKANLAR

X Ü L A S Ə

Tədqiqatın məqsədi – milli iqtisadi inkişafda maliyyə amillərinin rolunu araşdırmaq, onların effektivliyini artıran imkanları və məhdudlaşdıran çətinlikləri müəyyənləşdirməkdir.

Tədqiqatın metodologiyası – məqalədə mövcud ədəbiyyatın nəzəri icmalı, statistik göstəricilər əsasında analitik təhlil, müqayisəli qiymətləndirmə və empirik yanaşmalardan istifadə olunmuşdur.

Tədqiqatın tətbiqi əhəmiyyəti – əldə edilən nəticələr dövlətin sosial-iqtisadi siyasəti, maliyyə institutlarının strateji fəaliyyəti və sahibkarlığın inkişafı üçün praktiki əhəmiyyətə malikdir. Nəticələr həmçinin maliyyə inklüzivliyi və dayanıqlı inkişafla bağlı gələcək elmi araşdırmalara nəzəri əsas yaradır.

Tədqiqatın nəticələri – təhlillər göstərir ki, maliyyə institutlarının səmərəsizliyi, kredit əlçatanlığının məhdudluğu, zəif maliyyə infrastrukturu və siyasətdəki qeyri-sabitlik milli iqtisadi artım üçün əsas maneələrdir. Bununla yanaşı, maliyyə sektorunda islahatlar, rəqəmsal maliyyə xidmətləri və innovativ maliyyə alətləri kapitalın daha səmərəli səfərbər edilməsinə imkan verir.

Tədqiqatın orijinallığı və elmi yeniliyi – məqalədə milli iqtisadi inkişafda maliyyə amillərinin rolunun kompleks təhlili təqdim olunmuş, maliyyə savadlılığının artırılması, dövlət-özəl tərəfdaşlıqlarının genişləndirilməsi və yeni maliyyə texnologiyalarının tətbiqi üzrə elmi tövsiyələr verilmişdir.

Açar sözlər: maliyyə amilləri, milli iqtisadi inkişaf, maliyyə inklüzivliyi, investisiya, kredit əlçatanlığı, maliyyə islahatları, iqtisadi artım, maliyyə infrastrukturu, fiskal siyasət, dayanıqlı inkişaf.

AUDİT 2025, 3 (49), səh. 55-64.
AUDIT 2025, 3 (49), pp. 55-64.
АУДИТ 2025 3 (49), стр. 55-64.

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ПОВЫШЕНИЕ ЭФФЕКТИВНОСТИ ФИНАНСОВЫХ ФАКТОРОВ В НАЦИОНАЛЬНОМ ЭКОНОМИЧЕСКОМ РАЗВИТИИ: ПРОБЛЕМЫ И ВОЗМОЖНОСТИ

Р Е З Ю М Е

Цель исследования – исследование направлено на изучение роли финансовых факторов в национальном экономическом развитии, а также выявление возможностей, повышающих их эффективность, и проблем, ограничивающих их потенциал.

Методология исследования – в статье применяются теоретический обзор литературы, аналитическая оценка на основе статистических показателей, сравнительное исследование и эмпирические подходы к изучению эффективности финансовых механизмов.

Практическая значимость исследования – полученные результаты имеют практическое значение для социально-экономической политики государства, стратегической деятельности финансовых институтов и развития предпринимательства. Кроме того, они создают теоретическую основу для дальнейших исследований в области финансовой инклюзии и устойчивого развития.

Результаты исследования – анализ показал, что неэффективность финансовых институтов, ограниченный доступ к кредитам, слабая финансовая инфраструктура и политическая нестабильность являются ключевыми барьерами для национального экономического роста. В то же время реформы финансового сектора, цифровые финансовые услуги и инновационные финансовые инструменты создают возможности для более эффективной мобилизации и распределения капитала.

Оригинальность и научная новизна исследования – в статье представлен комплексный подход к анализу роли финансовых факторов в экономическом развитии. Особое внимание уделено повышению финансовой грамотности, расширению государственно-частного партнёрства и внедрению новых финансовых технологий как инновационным направлениям укрепления эффективности финансовых механизмов.

Ключевые слова: финансовые факторы, национальное экономическое развитие, финансовая инклюзия, инвестиции, доступ к кредитам, финансовые реформы, экономический рост, финансовая инфраструктура, фискальная политика, устойчивое развитие.

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