



**DIRECTIONS FOR DEVELOPING THE INVESTMENT
ACTIVITIES OF COMMERCIAL BANKS THROUGH THE STOCK
MARKET**

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ABSTRACT	KEYWORDS
<p>This article examines the priority areas of development of investment activities of commercial banks through stock market instruments in modern economic conditions. The author analyzes the issues of increasing the share of securities in bank assets, diversifying the investment portfolio, and managing risks in the financial market. The article also studies foreign experience in strengthening the role of commercial banks as professional participants in the stock market, and develops scientific and practical proposals for the national banking system. The results of the research will serve to increase the profitability of banks and ensure their investment attractiveness.</p>	<p>Commercial banks, stock market, investment activity, securities, shares, bonds, investment portfolio, diversification, financial stability, securitization.</p>

Introduction

In recent years, the importance of financial markets, in particular the stock market, in the world economy has been increasing. The stock market serves as an important mechanism for the effective allocation of capital in the economy, mobilization of investment resources, and stimulation of economic growth. In this regard, the issue of developing the investment activities of commercial banks through the stock market is of urgent scientific and practical importance.

Although commercial banks have traditionally formed the main sources of income through credit operations, in modern conditions there is a need to diversify their activities, including expanding investment operations. Investing through stock market instruments allows banks not only to receive additional income, but also plays an important role in managing their liquidity and diversifying risks. Also, the participation of commercial banks in the stock market serves to balance their active and passive operations, increase profitability, and strengthen financial stability. In the modern global financial system, banks actively participate not only as lending institutions, but also as large institutional investors, investing in securities issued by the state and the private sector. This has a positive impact on increasing the liquidity of the stock market and its efficient functioning.

In addition, by developing the investment activities of commercial banks, it is possible to attract long-term investment resources to the economy, to ensure the deepening and diversification of the capital

market. Therefore, the widespread and effective use of stock market instruments by banks is considered one of the important factors in the sustainable development of the national economy.

The Republic of Uzbekistan is implementing large-scale reforms to develop the financial market, modernize the banking system and deepen the capital market [1]. In this process, one of the important tasks is the integration of commercial banks with the stock market, improving their investment strategies and increasing the level of use of modern financial instruments.

This article analyzes the theoretical foundations of the development of investment activities of commercial banks through the stock market, existing problems and ways to overcome them, as well as international experience and practical recommendations in this area.

Literature review on the topic

A number of foreign and domestic scientists have put forward important scientific approaches to the study of banks and their investment activities and efficiency. In particular, Allen N. Berger and Loretta J. Mester's studies deeply analyzed the issue of bank efficiency, arguing that the efficiency of bank activities depends mainly on the composition of assets, the quality of their placement, and the efficiency of management [2]. The authors emphasize that the internal management mechanisms of the bank and the level of resource utilization are one of the main factors determining the differences in efficiency between banks. Their research also scientifically substantiates that asset portfolio diversification serves to increase bank profitability and reduce risks.

Economists such as Tomaso Padoa-Schioppa and Hyun Song Shin, studying the interrelationship between banks and capital markets in the financial system, emphasize the expansion of banks' investment activities in conditions of a developed stock market [3]. In their opinion, the stock market serves as an additional source of liquidity for banks, and banks diversify their sources of income by investing in securities.

Frederic S. Mishkin, analyzing the role of financial markets in the economy, notes in his scientific works that the development of the stock market has a positive impact on the activities of the banking system [4]. In his opinion, as the capital market deepens, banks act not only as lending institutions, but also as large institutional investors.

The relationship between financial development and economic growth has been widely studied in studies conducted by Ross Levine and Asli Demirgüç-Kunt [5]. They scientifically substantiated that the mutual development of the stock market and the banking system accelerates economic growth. It is also noted that the active participation of banks in stock market instruments contributes to the efficient allocation of financial resources.

Local economists, including A.V. Vakhobov and Sh.H. Khadzhibayev, studied the issues of developing the banking system and financial market of Uzbekistan and justified the need to expand the investment activities of commercial banks [6]. Their work emphasizes that economic efficiency can be achieved by increasing the participation of banks in the securities market, expanding the use of investment instruments, and developing the capital market.

Also, studies conducted by Uzbek economists N. Tokhliyev and M. Sharifkhodzjayev cover the role of the banking system in the economy and the development of its investment activities, and they note that the integration of commercial banks with the stock market is an important factor in ensuring economic stability [7].

In general, scientific research by foreign and domestic scientists has formed the theoretical and practical foundations for the development of commercial banks' investment activities through the stock market, and shows the importance of diversification, risk management, and deepening the capital market in this direction.

Research methodology

In preparing this article, a comparative and critical analysis of the legal documents, the literature and Internet information used, and the scientific and theoretical views of economists on the topic were carried out. In the course of studying the topic, along with general economic methods, systematic analysis, generalization, abstract-logical thinking, and statistical methods were used.

Analysis and discussion of results

In modern conditions, the stock market is emerging as an important financial platform for the development of investment activities of commercial banks. Analysis shows that in developed countries, a significant part of the assets of commercial banks is directed to securities, which allows them to increase their profitability and diversify risks. In particular, in the experience of the USA, the European Union and Japan, banks conduct an active investment policy through bonds, stocks and other financial instruments.

Asset diversification and risk management. Based on Harry Markowitz's portfolio theory, the distribution of assets among various financial instruments allows us to minimize unsystematic risks [8]. Analysis of the graphical data showed that the share of securities in the US banking system reaching 50percent indicates that banks in this country rely more on market instruments than on traditional lending. This process increases the liquidity of bank assets, since securities (especially government bonds) have the property of turning into cash in the secondary market in a short time.

Conceptual analysis of portfolio composition. One of the main aspects under discussion is the proportionality of the investment portfolio. The high share of government bonds in banks in the European Union and Japan (60–70percent) indicates a conservative investment policy. Although this provides high security for banks, it leads to a low level of profitability. On the contrary, the fact that the share of corporate bonds in the US is 25percent strengthens the investment cooperation of banks with real sector enterprises. This theoretically gives impetus to the development of the "Investment Banking" model.

Securitization as a modern driver of development. The most promising direction for the development of banking activities through the stock market is the securitization of assets. From a theoretical point of view, this mechanism allows banks to convert their low-liquidity long-term assets (for example, mortgage loans) into market instruments and put them into circulation. This process, along with "cleaning" the bank balance sheet, serves to create new types of investment products in the financial market [9].

Analysis of the activities of commercial banks in Uzbekistan shows that their main source of income is still credit operations. The share of investment activities, especially operations carried out through the stock market, remains relatively low. The main reasons for this are the underdevelopment of the stock market, the limited range of financial instruments, the small number of institutional investors and the lack of investment management experience in banks.

Table 1 Structure of the Bank’s investment activities by stock market instruments [10]

Investment instruments	Description	Risk Level	Profitability	Importance for banks
Government bonds	Issued by the government	Low	Low–medium	Provides liquidity
Corporate bonds	Issued by enterprises	Medium	Medium–high	Source of interest income
Stocks	Shares in companies	High	High	Capital growth
Derivatives	Futures, options	High	High	Risk management
ETFs and investment funds	Diversified portfolio	Medium	Medium	Reduces risk

The table above classifies the stock market instruments widely used in the investment activities of commercial banks, highlighting their main characteristics, risk level and profitability indicators. The table shows that government bonds are a low-risk and relatively stable source of income, while corporate bonds provide higher returns for a medium level of risk. Although stocks are high-risk, they provide high returns due to capital growth, while other instruments are mainly used for hedging risks and speculative purposes.

The table also highlights the fact that instruments such as investment funds and ETFs expand the diversification opportunities for banks. Through these instruments, banks can distribute their portfolios among different assets, reduce the overall risk level and achieve stable income. In general, the table shows that commercial banks play an important role in forming their investment strategies through the use of stock market instruments.

The above instruments play an important role in forming the investment portfolio of commercial banks, through which banks have the opportunity to increase profitability and manage risks. At the same time, the level of use of these instruments and their composition differ significantly in different countries depending on the level of development of the stock market, financial infrastructure and regulatory approaches. It is in this respect that studying the experience of developed countries is of significant scientific and practical importance in further improving the investment policy of commercial banks.

The table below presents a comparative analysis of the features of investment activities of commercial banks through the stock market in developed countries such as the USA, the European Union and Japan.

Table 2 Comparative table of bank investment strategies in developed countries [10]

Indicators	USA	European Union	Japan
Main investment direction	Bonds, stocks	Bonds Priority	Highly weighted in government bonds
Development of the stock market	Very high	High	Mid-high
Risk approach	Diversification wide	Regulation Strong	Conservative approach
Return model	Commission + investment income	Interest + Investment Income	Interest income dominates
Banks’ participation in the stock market	Active	Active	Limited but available

The table above provides a comparative analysis of the investment strategies of commercial banks in the United States, the European Union, and Japan based on the development of the stock market and the characteristics of the financial system. The table shows that in the United States, banks' investment activities are quite active, and they invest widely in stocks and other financial instruments, along with bonds. This is explained by the highly developed stock market, the diversity of financial instruments, and the perfection of risk management mechanisms. In the European Union, bonds occupy a priority place in the investment activities of banks, which is associated with a relatively conservative approach and the strength of regulatory restrictions. In the Japanese experience, the investment policy of commercial banks is more focused on government bonds, which indicates that the country's financial system is focused on stability and is based on a low-risk strategy. In general, the analysis of the table shows that, although the level of participation of banks in the stock market in developed countries varies, in all of them investment activities serve to increase profitability, ensure liquidity, and diversify risks. At the same time, the approaches used in each country are formed in accordance with the characteristics of the national financial system and regulatory policy.

In practical terms, the following directions can be highlighted for the development of investment activities of commercial banks through the stock market. First of all, banks should gradually increase the share of securities in their assets. In this regard, it is important to ensure liquidity through government bonds, generate stable interest income through corporate bonds, and benefit from capital growth through stocks. At the same time, banks should follow the principle of portfolio diversification when making investment decisions and place instruments with different levels of risk in a balanced manner.

In practice, it is important for banks to introduce modern risk management systems to actively participate in the stock market, as well as use the opportunity to hedge interest rate and currency risks using derivative instruments. In addition, the development of investment services based on digital technologies and fintech solutions, offering investment products (for example, investment funds, trust management services) to clients will further expand the role of banks in the stock market. As a result, commercial banks will develop not only as lending institutions, but also as active investment institutions.

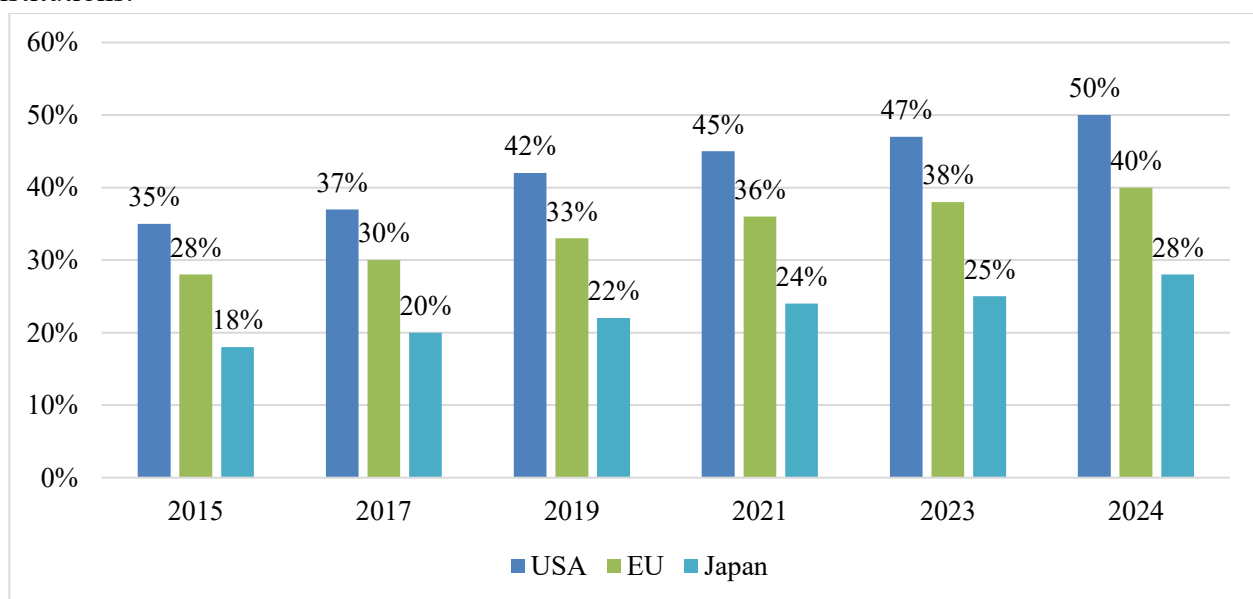


Figure 1. Growth dynamics of the share of securities in bank assets [10]

The figure above shows the dynamics of changes in the share of securities in the total assets of banks in the United States, the European Union and Japan between 2015 and 2024. The general trend shows that in all regions under analysis, the share of securities in the investment portfolio of banks has been steadily growing. In particular, this indicator is at its highest level in the US banking system, reaching 50percent by 2024 from 35percent in 2015. This indicates that the US financial system is highly securitized and banks are relying more on market instruments than traditional lending.

Although banks in the European Union and Japan have also shown a similar growth trajectory, their indicators are slightly lower than in the United States. The share of securities in EU banks has increased from 28percent to 40percent during the period under study. Japan has the lowest baseline, rising from 18 percent in 2015 to 28 percent in 2024. Notably, growth accelerated in all regions after 2021. This indicates that banks have increased their interest in government and corporate bonds to provide liquidity and diversify risks amid global economic uncertainty.

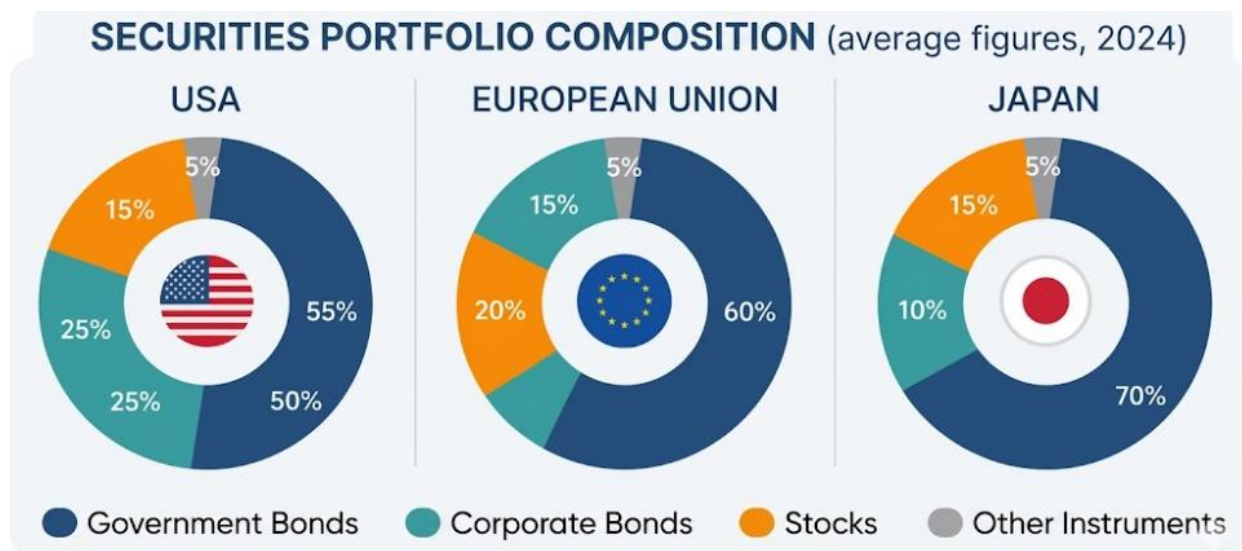


Figure 2. Securities portfolio composition of the USA, EU and Japan [10]

This infographic provides a comparative analysis of the composition of the securities portfolios of banks in the three largest economic regions of the world - the USA, the European Union and Japan - as of 2024. Below is a scientific and analytical explanation of this data:

1. General description of the portfolio and the level of security

It is noticeable that in all three regions the main part of the portfolio is made up of Government Bonds. This indicates that the “conservative approach” still prevails in the investment activities of commercial banks, that is, banks rely on government instruments with the lowest risk to maintain their liquidity. Japan has the highest indicator in this regard (70percent). This shows how closely the Japanese banking system is connected to government debt obligations and that government bonds are the main safe asset in conditions of low interest rates on the market.

2. Corporate sector investments and economic activity

The United States leads the way in the share of corporate bonds (Corporate Bonds) (25percent). This indicator indicates that the capital market in the United States is extremely developed and banks have

high investment relations with the private sector (business). For comparison, in the European Union this indicator is 20percent, and in Japan it is only 10percent. This indicates that in Japan traditional bank lending is more dominant than the corporate bond market.

3. Risky assets and profitability (Stocks)

An interesting fact is that the share of Stocks (Stocks) remained almost the same in all regions (15percent). In order to increase their profitability, banks have directed part of the portfolio to high-yielding, but risky stocks. This 15 percent share reflects the banks' desire to profit from market fluctuations without seriously undermining their financial stability. In conclusion, the data presented confirm the ongoing asset transformation process in the global banking system. The fact that almost half of bank assets (in the case of the United States) are invested in securities indicates a further strengthening of the relationship between financial markets and the banking sector. While this dynamic serves to increase the profitability of banks, it also makes them vulnerable to risks associated with market volatility and interest rate fluctuations.

Conclusion and suggestions

Conducted studies and comparative analysis of the banking systems of developed countries (USA, European Union and Japan) show that the stability of commercial banks in the modern financial market is inextricably linked to the level of their activity in the stock market. Global trends confirm the steady growth of the share of securities in the structure of bank assets (up to 50percent in the USA) and the increasing profitability of investment operations compared to traditional lending.

In conclusion, the stock market is not only a place for commercial banks to place free funds, but also a strategic instrument for managing liquidity, diversifying risks and generating additional sources of income. The following priority proposals are considered appropriate for the development of this area in the banking system of Uzbekistan:

1. Widespread introduction of the practice of securitization of bank assets.

It is necessary to create a mechanism for converting long-term loans (mortgage, leasing, car loans) issued by banks into securities and issuing them in the stock market. This will allow banks to quickly convert "frozen" assets into liquidity and attract additional resources to finance new investment projects.

2. Increasing the share of corporate securities in the portfolio.

Currently, banks rely mainly on government bonds (as a safe asset). However, international experience (in particular, on the example of US banks) shows that increasing the share of corporate bonds to 20-25percent significantly increases the overall profitability of the bank. To do this, banks should be encouraged to underwrite securities of reputable enterprises and purposefully include them in the investment portfolio.

3. Improving the infrastructure of investment banking services (Investment Banking).

It is necessary to develop specialized departments or "branch" brokerage companies within commercial banks that are professionally engaged in the stock market. Banks should not only invest their own funds, but also increase the share of commission income by providing asset management, IPO advisory services, and trust services for clients.

4. Introduction of modern methodologies for assessing investment risks.

To protect against price volatility in the stock market, banks must use the “Value at Risk” (VaR) method in their investment activities and regularly conduct stress tests on their securities portfolio. This will help maintain the bank's financial stability even in the face of market fluctuations.

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