



THE INVESTMENT POTENTIAL OF COMMERCIAL BANKS AND ITS ROLE IN ECONOMIC GROWTH

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ABSTRACT

This article examines the investment potential of commercial banks and its role in ensuring sustainable economic growth. Commercial banks are among the most important financial institutions in the economy, as they mobilize savings, transform them into investment resources, and allocate capital to productive sectors. The study analyzes the influence of capital adequacy, credit portfolio growth, asset quality, profitability, liquidity, and digital banking development on the investment capacity of commercial banks.

The research is based on the IMRAD structure and applies descriptive statistical analysis, comparative analysis, trend analysis, and CAMELS-based evaluation. The results show that the strengthening of capital adequacy, expansion of credit portfolios, reduction of non-performing loans, improvement of profitability indicators, and rapid development of digital banking services increase the role of commercial banks as drivers of economic growth. The study concludes that the investment potential of commercial banks is an important factor in capital accumulation, financial intermediation, private sector development, and long-term macroeconomic stability.

KEYWORDS

Commercial banks, investment potential, economic growth, financial intermediation, credit portfolio, capital adequacy ratio, non-performing loans, CAMELS framework, digital banking, financial stability.

Introduction

In modern economic systems, the financial sector plays a decisive role in ensuring sustainable development, capital accumulation, and efficient allocation of financial resources. Within this system, commercial banks occupy a central position because they act as financial intermediaries between savers and borrowers. By collecting temporarily free funds from households, enterprises, and institutions, commercial banks transform these resources into loans and investment capital directed to the real sector of the economy.

The investment potential of commercial banks refers to their ability to mobilize financial resources, expand lending activities, maintain capital stability, manage risks effectively, and finance productive investment projects. This potential is determined by several important indicators, including capital adequacy, credit portfolio dynamics, asset quality, liquidity, profitability, and the level of technological modernization.

Theoretical and empirical studies confirm that financial development has a strong relationship with economic growth. J. Schumpeter emphasized that banks play an active role in economic development by financing innovation and entrepreneurship. According to Schumpeter, credit creation enables entrepreneurs to introduce new technologies, improve production methods, and accelerate structural transformation in the economy [1]. R. Levine also demonstrated that developed financial systems contribute to long-term economic growth by improving resource allocation, reducing information asymmetry, and increasing investment efficiency [2].

In developing and transition economies, the role of commercial banks is especially significant because capital markets are often not sufficiently developed. Enterprises, especially small and medium-sized businesses, rely mainly on bank loans as their primary source of external financing. Therefore, the stability and investment capacity of commercial banks directly affect production growth, employment, private sector development, and modernization of the economy.

In Uzbekistan, banking sector reforms have intensified in recent years. These reforms include improving prudential regulation, strengthening capital requirements, privatizing state-owned banks, expanding private banking, developing digital financial services, and increasing financial inclusion. As a result, the role of commercial banks in financing investment activity has grown considerably. However, certain challenges remain, including credit risk concentration, limited long-term financing sources, underdeveloped capital markets, and the need to further improve risk management systems.

The purpose of this article is to analyze the investment potential of commercial banks and assess its role in promoting economic growth. To achieve this goal, the study examines key banking indicators for 2022–2024, evaluates the banking sector through the CAMELS framework, and identifies the main transmission channels through which commercial banks influence economic development.

MATERIALS AND METHODS

This research uses a mixed-method approach combining quantitative and qualitative analysis. The quantitative part of the study is based on statistical indicators of the banking sector, while the qualitative part focuses on institutional assessment, theoretical interpretation, and policy analysis.

The main data sources include reports of the Central Bank of the Republic of Uzbekistan, international financial institutions, academic literature, and commercial banks' financial statements. The study covers the period from 2022 to 2024, which reflects important changes in banking sector development, digital transformation, and financial stability.

The following analytical methods were used:

1. Descriptive statistical analysis — applied to examine the dynamics of key banking indicators.
2. Time-series trend analysis — used to identify changes in banking sector performance over time.
3. Comparative analysis — applied to compare indicators across 2022, 2023, and 2024.
4. CAMELS framework evaluation — used to assess the financial stability and investment attractiveness of commercial banks.
5. Theoretical generalization — applied to connect empirical findings with economic growth theories.

The key variables of the study are presented in Table 1.

Table 1. Main research variables

Indicator	Description	Economic meaning
Capital Adequacy Ratio	Ratio of bank capital to risk-weighted assets	Measures financial resilience
Credit Portfolio	Total amount of loans issued by banks	Reflects investment activity
Non-Performing Loans	Share of problematic loans in total loans	Shows asset quality and credit risk
Return on Assets	Net profit relative to total assets	Measures asset efficiency
Return on Equity	Net profit relative to equity capital	Measures profitability of capital
Liquidity Ratio	Liquid assets relative to liabilities	Indicates short-term stability
Digital Banking Penetration	Share of services through digital channels	Reflects technological development

The conceptual framework of the study is based on the following macro-financial transmission chain: Capital accumulation → Credit expansion → Investment growth → Production growth → Employment growth → Economic development.

This framework shows that commercial banks influence economic growth through mobilization of savings, transformation of funds into credit resources, allocation of capital to productive sectors, and stimulation of investment activity.

RESULTS

The empirical results show that the banking sector demonstrated positive development trends during 2022–2024. Key indicators such as capital adequacy, credit portfolio size, profitability, liquidity, and digital banking penetration improved, while the share of non-performing loans declined.

Table 2. Banking sector performance indicators, 2022–2024

Indicator	2022	2023	2024	Trend
Capital Adequacy Ratio, %	14.5	15.2	15.8	↑
Credit Portfolio, trillion UZS	320	365	410	↑
Non-Performing Loans, %	5.8	5.2	4.6	↓
Return on Assets, %	1.6	1.8	2.1	↑
Return on Equity, %	12.4	13.7	15.2	↑
Liquidity Ratio, %	28	30	33	↑
Digital Banking Penetration, %	45	52	60	↑

The capital adequacy ratio increased from 14.5% in 2022 to 15.8% in 2024. This indicates that commercial banks strengthened their capital base and improved their ability to absorb potential financial losses. Strong capital adequacy is an important condition for expanding investment lending because it allows banks to take calculated risks while maintaining financial stability.

The credit portfolio increased from 320 trillion UZS in 2022 to 410 trillion UZS in 2024. This growth demonstrates the increasing role of commercial banks in financing economic activity. Credit expansion supports enterprises by providing working capital, investment loans, equipment financing, and project financing. As a result, bank lending contributes to capital accumulation and real sector development.

The share of non-performing loans declined from 5.8% to 4.6% during the analyzed period. This positive trend suggests improvement in credit risk management, borrower assessment, collateral policy, and banking supervision. A lower NPL ratio increases banks' ability to issue new loans and reduces pressure on profitability.

Profitability indicators also improved. Return on assets increased from 1.6% to 2.1%, while return on equity rose from 12.4% to 15.2%. These results show that commercial banks became more efficient in using their assets and equity capital. Higher profitability strengthens internal capital generation and supports future credit expansion.

The liquidity ratio increased from 28% to 33%, indicating that banks maintained stronger short-term financial stability. Adequate liquidity is essential for maintaining depositor confidence and ensuring the continuity of lending operations.

Digital banking penetration increased from 45% in 2022 to 60% in 2024. This demonstrates that commercial banks are rapidly adopting digital technologies. Digital banking reduces transaction costs, improves service accessibility, accelerates payments, and increases financial inclusion.

DISCUSSION

The results confirm that commercial banks play a strategic role in economic growth through financial intermediation, capital allocation, and investment financing. The increase in credit portfolios shows that banks are expanding their participation in real sector financing. This is especially important for developing economies where enterprises depend heavily on bank loans due to limited capital market development.

The findings are consistent with Schumpeter's theory of economic development, which emphasizes the role of banks in financing innovation and entrepreneurship [1]. By providing credit to enterprises, commercial banks enable the implementation of new business projects, technological modernization, and expansion of production capacity.

The results also correspond to the conclusions of R. Levine, who argued that financial development promotes economic growth by improving resource allocation and reducing transaction costs [2]. In this context, the growth of bank lending and the improvement of asset quality indicate that the banking sector is becoming more effective in allocating financial resources.

The decline in non-performing loans is particularly important for financial stability. High NPL levels reduce banks' lending capacity, weaken profitability, and increase systemic risk. Therefore, the reduction of NPLs from 5.8% to 4.6% can be interpreted as a sign of improved banking sector soundness.

The improvement in capital adequacy and liquidity also strengthens the investment potential of commercial banks. Well-capitalized and liquid banks are more capable of financing long-term investment projects. They are also more resilient to external shocks, changes in interest rates, and macroeconomic uncertainty.

Digital transformation is another major factor increasing the investment potential of banks. Digital banking platforms allow banks to serve more customers at lower cost, collect and analyze borrower data more effectively, and expand financial services to remote regions. This supports financial inclusion and increases the availability of credit for small and medium-sized enterprises.

The CAMELS-based evaluation provides a broader assessment of banking sector stability.

Table 3. CAMELS-based assessment of commercial banks

Component	Assessment	Explanation
Capital Adequacy	Strong	Capital ratios are increasing and support credit expansion
Asset Quality	Good	NPL ratio is declining
Management Quality	Moderate+	Governance reforms are progressing, but further improvement is needed
Earnings	Strong	ROA and ROE show positive dynamics
Liquidity	Strong	Liquidity ratios indicate stable short-term resilience
Sensitivity to Market Risk	Moderate	Banks remain exposed to interest rate and exchange rate risks

The CAMELS analysis shows that the banking sector has strong positions in capital adequacy, earnings, and liquidity. Asset quality is improving due to the decline in non-performing loans. However, management quality and sensitivity to market risks require further improvement. Banks need to strengthen corporate governance, internal control systems, stress testing mechanisms, and risk-based management practices.

Overall, the study shows that the investment potential of commercial banks depends not only on the volume of loans issued but also on the quality of financial intermediation. Sustainable investment potential requires a balance between credit expansion, capital adequacy, asset quality, liquidity, profitability, and technological development.

CONCLUSION

The study concludes that commercial banks are key institutional drivers of economic growth. Their investment potential is formed through the mobilization of savings, expansion of credit resources, effective risk management, capital stability, profitability, liquidity, and digital transformation.

The empirical analysis for 2022–2024 shows several positive trends. Capital adequacy increased from 14.5% to 15.8%, indicating stronger financial resilience. The credit portfolio expanded from 320 trillion UZS to 410 trillion UZS, demonstrating greater support for investment activity. Non-performing loans declined from 5.8% to 4.6%, reflecting better asset quality. ROA and ROE improved, showing increased banking efficiency. Liquidity strengthened, while digital banking penetration rose from 45% to 60%.

These findings confirm that commercial banks contribute to economic growth through credit expansion, investment financing, capital allocation, and financial inclusion. By financing enterprises and households, banks stimulate production, employment, innovation, and private sector development. At the same time, the investment potential of commercial banks should be developed carefully. Excessive credit expansion without proper risk assessment may create financial instability. Therefore, the banking sector must maintain a balance between lending growth and risk control.

Based on the results of the study, the following policy recommendations are proposed:

1. Strengthening capital buffers Commercial banks should continue to comply with Basel standards and increase capital adequacy to support sustainable lending.
2. Improving credit risk management Banks should develop advanced credit scoring systems, borrower monitoring mechanisms, and early warning systems.

3. Reducing non-performing loans Special attention should be paid to restructuring problematic loans, improving collateral management, and strengthening credit discipline.
 4. Expanding long-term financing sources Banks should increase the use of long-term deposits, bonds, syndicated loans, and international credit lines.
 5. Developing digital banking infrastructure Digital platforms, mobile banking, remote identification, and fintech cooperation should be expanded.
 6. Supporting SME financing Commercial banks should introduce special credit products for small and medium-sized enterprises.
 7. Improving corporate governance Internal control, transparency, risk committees, and strategic planning should be strengthened.
 8. Developing capital markets A stronger capital market can reduce excessive dependence on bank loans and diversify investment financing sources.
- Thus, the development of the investment potential of commercial banks is an essential condition for ensuring sustainable economic growth, financial stability, and modernization of the national economy.

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