THE ROLE OF COMMERCIAL BANKS IN STIMULATING INVESTMENT ACTIVITY: EVIDENCE FROM UZBEKISTAN

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https://doi.org/10.5281/zenodo.18398577

Abstract. *The banking sector plays a pivotal role in stimulating investment activity and ensuring sustainable economic growth, particularly in emerging economies. Over the past decade, Uzbekistan has undertaken large-scale financial reforms aimed at strengthening the banking system, enhancing financial intermediation, and increasing investment flows into the real sector of the economy. This study analyzes the current state of investment activity in Uzbekistan's banking sector during the period 2020–2024, focusing on asset dynamics, credit expansion, deposit growth, and investment strategies of major commercial banks. Using official data from the Central Bank of Uzbekistan, international financial institutions, and case studies of leading banks such as Asaka Bank, Ipoteka Bank, and the National Bank for Foreign Economic Activity (NBU), the research identifies key trends, structural transformations, and existing constraints in bank-led investment financing. The findings indicate a significant increase in long-term lending, improved asset quality, rising profitability, and growing participation of banks in infrastructure, industrial, and housing projects. However, challenges remain in terms of portfolio diversification, regulatory barriers, underdeveloped capital markets, and limited access to finance for small and medium-sized enterprises (SMEs). The paper concludes that further development of capital markets, digital financial technologies, risk management systems, and public–private partnership mechanisms is essential to enhance the investment potential of the banking sector and ensure sustainable economic modernization in Uzbekistan.*

Keywords: *banking sector, investment activity, commercial banks, Uzbekistan, financial reforms, economic growth.*

Introduction

Investment activity is a fundamental driver of economic growth, structural transformation, and technological modernization. In emerging economies, where capital markets are often underdeveloped, commercial banks play a dominant role in mobilizing financial resources and channeling them into productive investments. Uzbekistan represents a notable case of banking sector transformation, characterized by rapid institutional reforms, liberalization policies, and increasing integration into the global financial system.

Since 2017, Uzbekistan has implemented comprehensive reforms aimed at strengthening its banking sector, improving corporate governance, reducing state dominance, and enhancing transparency. These reforms have significantly altered the role of banks, transforming them from passive financial intermediaries into active institutional investors supporting industrialization, infrastructure development, and innovation.

This study aims to examine the contemporary state of investment activity in Uzbekistan's banking sector, assess its impact on the investment process, and identify key challenges and

prospects for further development. The research contributes to the existing literature by providing an updated empirical analysis based on recent data and bank-level case studies.

Literature Review

The relationship between banking sector development and investment activity has been extensively examined in economic literature. According to classical financial intermediation theory, banks reduce transaction costs, mitigate information asymmetries, and allocate capital more efficiently (Levine, 2005). In developing economies, banks often substitute for underdeveloped capital markets, becoming the primary source of long-term investment financing.

Empirical studies suggest that a well-capitalized and diversified banking system positively influences investment growth and economic stability (Beck & Levine, 2004). In transition economies, banking reforms and privatization have been shown to enhance investment efficiency, provided that regulatory frameworks and risk management systems are adequately developed.

Recent studies on Central Asia emphasize the growing role of banks in financing infrastructure and industrial projects, while highlighting persistent challenges such as state dominance, weak capital markets, and limited SME access to finance. This research builds upon these findings by focusing specifically on Uzbekistan's recent banking reforms and investment outcomes.

Methodology and Data

This study adopts a comprehensive methodological framework that combines quantitative statistical analysis with qualitative case study approaches in order to provide an in-depth assessment of investment activity within Uzbekistan's banking sector. Such a mixed-methods design allows for both macro-level evaluation of sector-wide trends and micro-level examination of individual banks' investment strategies, ensuring robustness and analytical depth.

Research Design

The research is structured as an empirical descriptive and analytical study focusing on the period **2020–2024**, which represents a crucial stage in the transformation of Uzbekistan's banking system. This timeframe captures the effects of post-pandemic recovery, intensified financial sector reforms, and increased integration of international banking standards.

The study is guided by the following analytical objectives:

- to examine the dynamics of banking assets, credit portfolios, and deposit bases;
- to assess the role of commercial banks in financing long-term investment projects;
- to evaluate the effectiveness of banks' investment policies using profitability and risk indicators;
- to identify structural constraints limiting investment activity and propose policy-oriented solutions.
- Data Sources

The empirical analysis is based on **official, verified, and publicly available data**, ensuring reliability and academic validity. The primary data sources include:

- **Central Bank of the Republic of Uzbekistan (CBU)**: annual reports, statistical bulletins, and banking sector indicators, including assets, capital, credit portfolios, non-performing loans (NPLs), and profitability ratios.
- **Ministry of Economy and Finance of Uzbekistan**: investment statistics and macroeconomic indicators.

- **Annual and financial reports of major commercial banks**, including Asaka Bank, Ipoteka Bank, National Bank for Foreign Economic Activity (NBU), Aloqabank, and Xalq Bank.
- **International financial institutions**, such as the European Bank for Reconstruction and Development (EBRD), the World Bank Group (IFC), OECD, and Asian Development Bank (ADB), which provide comparative assessments, policy reviews, and institutional evaluations.

The use of both national and international data sources enhances cross-validation and allows for benchmarking Uzbekistan's banking investment activity against regional and international trends.

Quantitative Methods

Quantitative analysis focuses on the measurement of investment-related indicators and their dynamics over time. The following methods are applied:

- **Trend analysis**, used to examine changes in banking assets, credit volumes, and deposits over the selected period.
- **Structural analysis**, employed to assess the composition of bank assets, credit portfolios by sector, and forms of investment financing.
- **Ratio analysis**, including Return on Assets (ROA), Return on Equity (ROE), credit growth rates, and NPL ratios, to evaluate financial performance and investment efficiency.
- **Comparative analysis**, allowing for cross-bank and intertemporal comparisons among leading commercial banks.

All monetary indicators are analyzed in nominal terms as reported by official sources, ensuring consistency across datasets.

Qualitative Case Study Approach

To complement the quantitative findings, the study applies a **case study methodology** focusing on selected systemically important banks. These banks were chosen based on their asset size, market share, and strategic role in investment financing.

The case studies analyze:

- sectoral priorities of investment portfolios;
- participation in infrastructure, industrial, housing, and digital projects;
- adoption of innovative investment instruments, including green bonds and ESG-based financing;
- cooperation with international financial institutions and public–private partnership mechanisms.

This approach enables the identification of best practices and institutional differences in investment behavior across banks.

Analytical Limitations

While the study provides a comprehensive overview of banking investment activity, several limitations should be acknowledged. First, the analysis relies primarily on aggregated banking data, which may mask intra-bank heterogeneity. Second, limited availability of detailed project-level data restricts the application of advanced econometric modeling. Finally, the evolving regulatory environment may influence investment outcomes beyond the observed period.

Despite these constraints, the chosen methodology provides a reliable and systematic basis for evaluating the role of commercial banks in stimulating investment activity and supports evidence-based policy conclusions.

Current State of the Banking Sector and Its Impact on Investment

Structural Transformation of the Banking Sector

Uzbekistan's banking system operates under a two-tier structure, with the Central Bank responsible for regulation and supervision, and commercial banks providing financial services to the economy. As of 2024, the country had 33 operating banks, including state-owned, private, and foreign-capital institutions. Total banking assets exceeded 640 trillion Uzbek soums, reflecting a 42% increase compared to 2020. The asset structure reveals a strong emphasis on credit operations, which account for approximately 76% of total assets. This indicates a credit-oriented financial model in which banks play a central role in investment financing rather than portfolio investment in securities.

Macroeconomic Environment and Investment Conditions

Macroeconomic stability has been a key factor supporting investment activity. During 2020–2024, Uzbekistan's GDP grew at an average annual rate of 5.6%, while inflation declined significantly. This allowed for a more accommodative monetary policy and reduced borrowing costs, thereby stimulating long-term investment lending.

Dynamics of Assets, Credits, and Deposits

Asset and Credit Growth

Between 2020 and 2024, the total credit portfolio of banks expanded from 340 trillion to 490 trillion soums, representing a growth of approximately 44%. The increase was particularly pronounced in industrial production, construction, infrastructure, and agriculture—sectors closely linked to investment activity. The share of long-term loans rose to 56% of total credit portfolios, underscoring the increasing role of banks in financing capital-intensive projects.

Deposit Base and Financial Stability

Deposits remain the primary funding source for banks. Over the analyzed period, household deposits nearly doubled, reflecting increased public confidence in the banking system. At the same time, the share of foreign-currency deposits declined, indicating gradual de-dollarization and improved macroeconomic credibility.

Investment Policies of Commercial Banks: Case Studies

Asaka Bank

Asaka Bank has emerged as a leading investor in industrial and infrastructure projects, particularly in the automotive and energy sectors. Its investment portfolio demonstrates strong diversification, with increasing attention to digitalization and ESG-oriented projects.

Ipoteka Bank

Ipoteka Bank specializes in housing finance and urban development projects. Its investment volume more than doubled between 2020 and 2024, reflecting the expansion of mortgage programs and infrastructure financing.

Other Banks

NBU focuses on export-oriented investments and large infrastructure projects, while Aloqabank and Xalq Bank emphasize digital innovation and social investment, respectively. Together, these institutions form a multi-layered investment financing model within the banking sector.

Challenges and Constraints

Despite notable progress, several challenges constrain the investment potential of banks:

- Limited diversification of investment instruments
- Underdeveloped capital markets

- Regulatory complexity and compliance costs
- Insufficient risk assessment tools for innovative projects
- Restricted SME access to long-term finance

These issues reduce flexibility and limit banks' ability to support high-risk, high-return investment initiatives.

Conclusions

This study has examined the contemporary role of commercial banks in stimulating investment activity in Uzbekistan during the period 2020–2024, a critical phase of financial sector transformation and economic modernization. The findings demonstrate that the banking sector has evolved from a predominantly intermediary-based system into an increasingly active institutional investor, playing a central role in channeling financial resources toward long-term development objectives.

The empirical analysis reveals a sustained expansion of banking assets, credit portfolios, and deposit bases, accompanied by improvements in profitability and asset quality. In particular, the growing share of long-term loans and the declining ratio of non-performing loans indicate enhanced financial discipline and more effective risk management practices. These trends confirm that commercial banks have become key drivers of investment financing in strategic sectors such as industry, energy, infrastructure, housing construction, and agriculture.

Case studies of leading banks, including Asaka Bank, Ipoteka Bank, and the National Bank for Foreign Economic Activity, highlight a gradual diversification of investment strategies. Banks increasingly participate in large-scale infrastructure projects, export-oriented initiatives, housing programs, and digital transformation efforts. The introduction of innovative instruments- such as green bonds, ESG-based project evaluation, and syndicated lending- further illustrates the modernization of investment policies within the banking sector.

However, despite these positive developments, the study identifies several persistent structural constraints. Investment portfolios remain highly concentrated in traditional credit instruments, while capital market-based financing, venture investments, and project finance mechanisms are underdeveloped. Regulatory complexity, limited risk assessment tools for innovative projects, and insufficient access to long-term funding- particularly for small and medium-sized enterprises-continue to constrain the full realization of banks' investment potential.

Overall, the results suggest that while Uzbekistan's banking sector has made substantial progress in supporting investment-led growth, its long-term effectiveness will depend on deeper institutional reforms, enhanced market diversification, and stronger integration with global financial practices.

Policy Implications

Based on the findings of this study, several policy implications can be formulated to strengthen the role of commercial banks in fostering sustainable investment activity and economic development.

First, **the development of capital markets should be prioritized** to complement bank-based financing. Expanding the market for government and corporate bonds, encouraging initial public offerings, and supporting investment funds would reduce excessive reliance on bank credit and improve risk diversification. A more developed capital market would also enable banks to rebalance their portfolios and access long-term funding sources.

Second, **regulatory and institutional frameworks should be further streamlined** to facilitate investment banking activities. Simplifying licensing procedures for new financial

instruments, reducing administrative barriers for project finance, and enhancing regulatory predictability would accelerate investment decision-making and reduce transaction costs for banks and investors.

Third, **risk management and analytical capacity within banks must be strengthened**. This includes the wider adoption of advanced credit scoring models, stress testing, big data analytics, and artificial intelligence-based risk assessment tools. Improving project evaluation methodologies is particularly important for innovative, digital, and green investment projects that do not fit traditional collateral-based lending models.

Fourth, **access to finance for small and medium-sized enterprises should be expanded** through targeted policy measures. Government-backed guarantee schemes, co-financing mechanisms, and subsidized credit programs can reduce perceived risks and encourage banks to increase investment lending to SMEs. Enhancing financial transparency and accounting standards among SMEs would further support this process.

Fifth, **the promotion of ESG and sustainable finance initiatives should be intensified**. Encouraging green bonds, sustainable investment funds, and environmentally responsible lending practices would not only attract international capital but also align the banking sector with global sustainability goals. Banks should be incentivized to integrate environmental and social criteria into their investment decision-making frameworks.

Finally, **public–private partnership (PPP) mechanisms should be expanded** to mobilize private capital for large-scale infrastructure and social projects. Banks can play a coordinating role in structuring PPP financing, managing risks, and ensuring the efficient allocation of resources.

Final Remarks. In conclusion, the banking sector in Uzbekistan has emerged as a cornerstone of the country's investment and development strategy. Continued progress, however, will require a balanced approach that combines financial stability with innovation, regulatory discipline with flexibility, and state support with market-driven incentives. By advancing these policy directions, Uzbekistan can further enhance the contribution of its banking sector to sustainable economic growth, investment efficiency, and long-term competitiveness.

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