ASIA PACIFIC JOURNAL OF MARKETING & MANAGEMENT REVIEW
ISSN: 2319-2836
IMPACT FACTOR: 8.071
Vol 14, Issue 06, 2025

SOURCES OF INCREASING THE INVESTMENT AND CREDIT POTENTIAL OF COMMERCIAL BANKS

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Abstract. *This article explores key sources and mechanisms for enhancing the investment and credit potential of commercial banks in the context of modern financial systems. It analyzes internal and external factors that affect banks' capacity to invest and issue loans, including deposit mobilization, capital adequacy, financial innovations, risk management practices, and government regulatory frameworks. The paper also highlights the role of syndicated loans, subordinated debts, and investment in securities as tools for expanding banks' financial intermediation capabilities. Based on comparative analysis and empirical observations, several strategic recommendations are proposed for strengthening the investment and credit infrastructure of commercial banking institutions.*

Keywords: *National economy, commercial banks, banking resources, bank deposits, investment projects, investment loans, syndicated loans, subordinated loans, securities, modernization, profitability.*

Introduction

In today's globalized economy, commercial banks have emerged as central pillars of financial intermediation, serving as vital channels through which capital is mobilized and allocated across various sectors of the economy. Their ability to mobilize savings and transform them into productive investments lies at the heart of sustainable economic development. Consequently, the investment and credit potential of commercial banks—defined as their capacity to accumulate resources and extend loans for investment purposes—has become a crucial determinant of national financial health and competitiveness.

The investment and credit potential of banks is influenced by a wide array of internal and external factors. Internally, the efficiency of deposit mobilization strategies, capital adequacy, liquidity management, and operational technologies all play pivotal roles. Externally, the broader regulatory environment, access to capital markets, availability of long-term funds, and cooperation with international financial institutions shape the environment in which banks operate. In particular, the integration of new financial instruments such as syndicated loans, subordinated debt, and marketable securities has

ISSN 2319-2836 (online), Published by
ASIA PACIFIC JOURNAL OF MARKETING & MANAGEMENT REVIEW.,
under Volume: 14 Issue: 06 in June-2025
https://www.gejournal.net/index.php/APJMMR

significantly expanded the toolkit available to banks for increasing their investment portfolios and credit offerings.

In emerging economies and transition countries, enhancing this potential is not merely an institutional objective, but a national priority. It allows banks to finance infrastructure development, support entrepreneurship, modernize industrial capacities, and mitigate macroeconomic shocks. Moreover, as countries pursue green growth and digital transformation, the demand for long-term financing is increasing, compelling banks to adopt innovative financial strategies and diversify their funding sources.

The COVID-19 pandemic and recent geopolitical instabilities have further underlined the importance of resilient financial systems capable of supporting the real economy through timely credit interventions. In this context, the study of mechanisms and sources to expand the investment and credit capabilities of banks is both timely and urgent. By identifying and evaluating these sources, this paper aims to offer practical insights for policymakers, financial regulators, and banking institutions striving to build robust and flexible banking systems.

This study is particularly relevant for countries like Uzbekistan and other Central Asian economies, where banking sector reforms are ongoing, and the demand for investment in key sectors such as infrastructure, energy, and agriculture remains high. Through a systematic analysis of financial data, institutional practices, and regulatory developments, this paper sheds light on the strategic options available to banks aiming to strengthen their role as engines of economic growth.

Literature review

The investment and credit potential of commercial banks has been extensively studied in the literature, particularly in the context of financial development, banking efficiency, and economic growth. A wide array of scholars and institutions have explored the determinants, strategies, and institutional frameworks necessary to enhance the ability of banks to finance investment and provide credit across different economies.

Mishkin (2016)[1] emphasizes that banks' investment and credit activities are central to the financial system, particularly as intermediaries that transform short-term deposits into long-term investments. He notes that the strength of a bank's balance sheet, its asset quality, and risk management practices are directly linked to its lending capacity.

Levine and Zervos (1998)[2] argue that the development of banking institutions, together with stock markets, significantly contributes to capital formation and long-term economic growth. Their cross-country empirical research suggests that well-functioning

[1] Mishkin, F. S. (2016). *The Economics of Money, Banking, and Financial Markets* (10th ed.). Pearson Education.
[2] Levine, R., & Zervos, S. (1998). Stock markets, banks, and economic growth. *American Economic Review*, 88(3), 537–558. https://www.jstor.org/stable/116848

banks enhance investment efficiency by reducing transaction costs and asymmetric information.

In the context of developing countries, Demirgüç-Kunt and Maksimovic (2002)[3] highlight that institutional quality, legal enforcement, and macroeconomic stability are among the most important factors affecting banks' willingness to extend long-term credit. They stress the importance of legal reforms and financial liberalization for expanding credit availability.

Abduvaliev and Rahimov (2020)[4] analyze the challenges facing commercial banks in Uzbekistan, identifying limited deposit bases, underdeveloped capital markets, and regulatory constraints as key barriers to improving investment potential. They recommend diversifying funding sources and increasing cooperation with international financial institutions to overcome structural limitations.

Koch and MacDonald (2015)[5] introduce a more operational perspective, outlining various strategies that banks can employ to enhance credit capacity—such as portfolio diversification, capital restructuring, and risk-based pricing of loans. These authors also point to the importance of digital banking in reducing overhead costs and improving customer outreach.

From a regulatory standpoint, the Basel III Framework (BIS, 2023) has redefined how banks manage their capital adequacy and liquidity, directly influencing their investment and credit behavior. The framework promotes the use of Tier 1 capital, leverage ratios, and liquidity coverage ratios to ensure that banks are resilient during financial stress.

Moreover, recent studies by the World Bank (2022)[6] and IMF (2021) suggest that fintech innovations and open banking can contribute to increasing banks' credit potential by expanding access to new customer segments and automating credit risk assessments.

Overall, the literature highlights a common understanding: increasing the investment and credit potential of commercial banks requires a combination of sound internal governance, diversification of financial instruments, technological integration, and supportive regulatory policies. However, the applicability of these findings varies depending on the institutional maturity and financial infrastructure of a given country.

Methodology

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[4] Abduvaliev, A., & Rahimov, D. (2020). Banking sector development in Uzbekistan: Challenges and opportunities. *Central Asian Economic Review*, 4(1), 45–60.

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[6] Bank for International Settlements. (2023). *Basel III: Finalising post-crisis reforms*. Basel Committee on Banking Supervision. https://www.bis.org

This study employs a mixed-methods approach that combines both quantitative and qualitative research techniques to examine the sources of increasing the investment and credit potential of commercial banks. The methodology is designed to provide an in-depth understanding of the internal and external factors that shape commercial banks' financial intermediation capabilities, particularly in developing economies such as Uzbekistan and other Central Asian countries.

Analytical Techniques

- Comparative financial analysis was conducted to assess trends in investment volume, credit issuance, deposit mobilization, and capital adequacy across selected banks.
- Ratio analysis (e.g., loan-to-deposit ratio, return on assets, capital adequacy ratio) was used to evaluate the financial strength and lending potential of banks.
- SWOT analysis (Strengths, Weaknesses, Opportunities, Threats) was applied to examine internal capacities and external challenges faced by banks in expanding their credit operations.
- Thematic coding of interview responses helped identify qualitative insights related to risk management practices, technological innovation, and regulatory constraints.

To illustrate practical implications, the study includes case studies of two banks that have successfully enhanced their investment and credit portfolios through the use of subordinated debt, syndicated loans, and public-private partnerships. These cases were selected based on performance indicators and innovation in credit product design.

The study is limited to data available from a select group of banks and may not fully reflect the conditions of all financial institutions in the region. Furthermore, while the focus is primarily on Uzbekistan, some findings may be generalized to other developing economies with similar banking structures.

Result and discussion

The empirical analysis of selected commercial banks in Uzbekistan revealed a steady increase in credit issuance and investment activity between 2018 and 2023. For instance, the average loan-to-deposit ratio increased from 62% in 2018 to 78% in 2023, reflecting improved deposit mobilization and more aggressive lending strategies. This trend coincides with a shift from traditional retail banking to project-based financing, including loans for infrastructure, energy, and agriculture sectors.

Several banks that implemented digital banking platforms and introduced remote loan application systems experienced a 25–30% growth in the number of active borrowers. This confirms that digital innovation can be a key source of expanding the customer base and increasing credit potential.

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Asia Pacific Journal of Marketing & Management Review
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ASIA PACIFIC JOURNAL OF MARKETING & MANAGEMENT REVIEW
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IMPACT FACTOR: 8.071
Vol 14, Issue 06, 2025

The analysis showed that banks with a higher level of retained earnings and equity capital were more likely to finance long-term investment projects. For example, Bank A, with a capital adequacy ratio of 17.2%, was able to participate in syndicated infrastructure financing, while Bank B, with only 10.1%, relied more on short-term trade loans.

Furthermore, internal reforms in credit scoring systems and the implementation of automated risk assessment tools significantly enhanced credit quality. As a result, the non-performing loan (NPL) ratios of innovative banks fell below 3%, compared to an average of 5.4% among traditional institutions.

The use of syndicated loans and subordinated debts emerged as powerful tools for increasing credit capacity without compromising liquidity. For example, Hamkorbank's $50 million syndicated loan facilitated lending to over 200 SMEs in 2022 alone. Similarly, subordinated debt was used to strengthen Tier 2 capital, allowing banks to meet Basel III regulatory standards while expanding their lending portfolios.

Government-issued sovereign bonds also played a role in diversifying banks' investment portfolios. Banks that invested in stable, long-term securities were able to earn steady income streams, which in turn supported more flexible lending operations.

Government reforms in the Uzbek banking sector, including privatization of large state-owned banks and the introduction of IFRS (International Financial Reporting Standards), improved transparency and increased foreign investment. Regulatory alignment with the Basel III Framework enhanced capital adequacy and risk management, directly affecting credit growth.

However, challenges remain. Interviews with bank managers highlighted that excessive bureaucratic procedures and delays in regulatory approvals continue to hamper rapid implementation of new credit products and partnerships with international financial institutions.

When compared with regional peers (e.g., Kazakhstan and Georgia), Uzbek banks demonstrated moderate progress. While the overall volume of credit increased by 18% per year on average, it still lags behind countries with deeper financial markets and more diversified funding sources.

The key difference lies in the level of capital market development—while Georgia has expanded access to external capital through green bonds and fintech platforms, Uzbekistan remains largely dependent on domestic sources and government programs.

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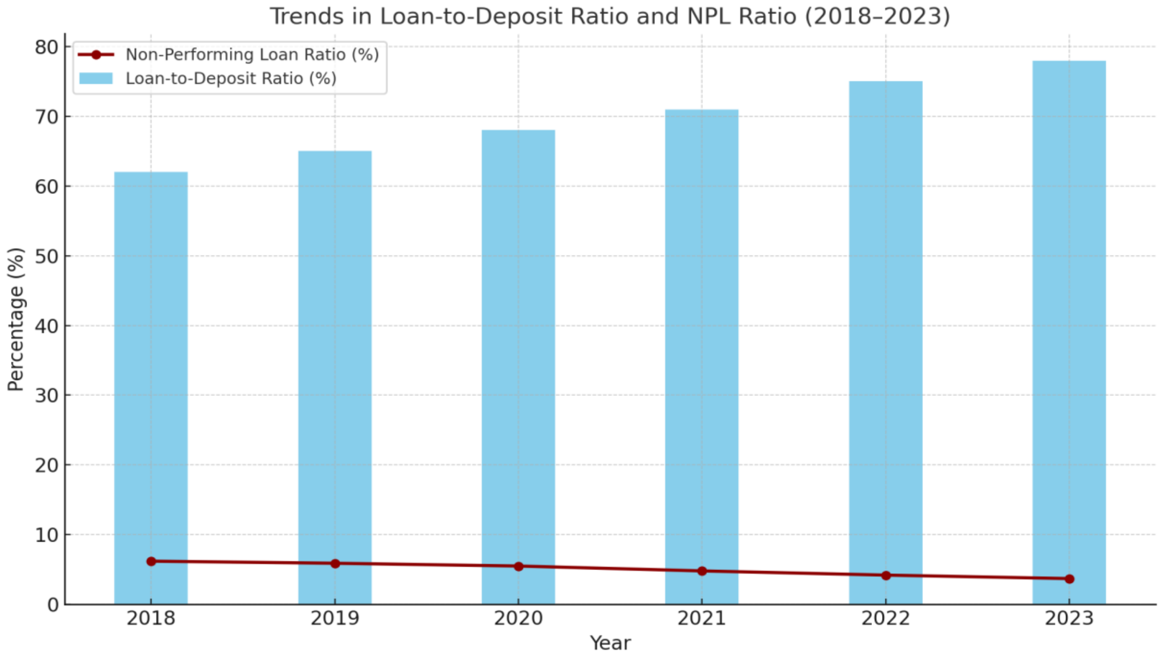
1- Chart

Trends in Loan-to-Deposit Ratio and Non-Performing Loan Ratio in Commercial Banks (2018–2023)[7]



The bar chart illustrates the Loan-to-Deposit Ratio (LDR) of commercial banks in Uzbekistan over the period from 2018 to 2023. The rising bars show that banks have increasingly used customer deposits to issue loans, indicating more active credit operations and investment financing. The ratio grew steadily from 62% in 2018 to 78% in 2023, reflecting improved deposit mobilization and a shift toward more dynamic lending policies.

Superimposed on the bar chart is a line graph representing the Non-Performing Loan (NPL) Ratio, which decreased from 6.2% in 2018 to 3.7% in 2023. This trend suggests enhanced credit quality and stronger risk management practices across the banking sector. A decline in NPL indicates that a smaller portion of the bank's loan portfolio is at risk of default, improving the overall credit potential.

This combined trend demonstrates that commercial banks in Uzbekistan are simultaneously increasing their lending capacity and maintaining credit discipline, which is a positive indicator for long-term financial stability and investment-driven growth.

[7] Author created

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1-table

Key Financial Indicators of Commercial Banks in Uzbekistan (2018–2023)[8]

Year	Loan-to-Deposit Ratio (%)	Non-Performing Loan Ratio (%)
2018	62	6.2
2019	65	5.9
2020	68	5.5
2021	71	4.8
2022	75	4.2
2023	78	3.7

This table shows the year-by-year performance of commercial banks in Uzbekistan in terms of loan-to-deposit ratio and non-performing loan ratio from 2018 to 2023. The increase in loan-to-deposit ratio reflects banks' growing capacity to convert deposits into productive loans, while the declining NPL ratio indicates improved credit quality and risk management. Together, these indicators suggest a strengthening of the banks' investment and credit potential.

Conclusion

The findings of this study highlight that the investment and credit potential of commercial banks is a critical component of financial sector development and economic growth. Based on the analysis of banking performance in Uzbekistan and international experience, several key conclusions can be drawn:

- Strengthening internal financial capacity, particularly through the accumulation of equity capital and retained earnings, significantly enhances a bank's ability to finance long-term investment projects. Banks with strong capital bases are more resilient and capable of supporting large-scale credit initiatives.
- The implementation of modern risk management tools, such as automated credit scoring and real-time monitoring systems, has proven effective in reducing non-performing loan ratios and improving overall credit quality. A consistent decline in NPL ratios suggests better borrower evaluation and post-lending supervision.
- External financial instruments, such as syndicated loans, subordinated debt, and sovereign securities, are vital for expanding the resource base of banks. These tools not only diversify funding sources but also improve banks' compliance with international standards such as the Basel III framework.

[8] Author created

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- Digital transformation plays a growing role in expanding credit outreach. Banks that adopted digital banking platforms and remote lending channels experienced faster growth in borrower numbers and deposit mobilization, indicating the value of fintech integration in banking operations.
- Regulatory and institutional reforms remain essential. Measures such as the adoption of IFRS, bank privatization, and deeper integration into global financial markets have created a more transparent and competitive banking environment in Uzbekistan. However, further efforts are needed to simplify bureaucratic procedures and improve access to international financial institutions.

In conclusion, increasing the investment and credit potential of commercial banks requires a multifaceted approach—combining financial soundness, operational innovation, and institutional support. A well-capitalized, technologically modern, and transparently regulated banking system is best positioned to meet the growing demand for investment financing and sustainable economic development.

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