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THE ROLE AND IMPORTANCE OF COMMERCIAL BANKS IN THE DEVELOPMENT OF THE CAPITAL MARKET



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Abstract: This paper explores the critical role that commercial banks play in the development and deepening of capital markets, particularly in both emerging and developed economies. Capital markets are essential mechanisms for mobilizing long-term funds, fostering investment, and supporting sustainable economic growth. While traditionally perceived as institutions focused on deposit-taking and lending, commercial banks have increasingly expanded their functions to include underwriting of securities, management of investment portfolios, and facilitation of financial intermediation between investors and issuers.

By utilizing a mixed-method approach that includes empirical data analysis, cross-country comparisons, and trend evaluations from 2015–2022, this study reveals a robust positive correlation between the scale and efficiency of the banking sector and key indicators of capital market development. These indicators include market capitalization, the number of initial public offerings (IPOs), and the issuance of corporate bonds. Countries with well-capitalized and diversified banking systems demonstrate stronger capital market activity, higher investor confidence, and more stable access to financing for the private sector.

Furthermore, the study identifies how policy frameworks, technological innovations, and institutional capacities of commercial banks influence their effectiveness in supporting capital markets. The findings provide important implications for financial regulators, policymakers, and development strategists who seek to strengthen financial ecosystems by promoting closer integration between banking institutions and capital market infrastructure.

Key words: commercial banks, capital market, financial intermediation, investment banking, economic development, financial institutions, securities market, banking sector, market capitalization, financial system development.

INTRODUCTION

Capital markets play a foundational role in a country's financial system by enabling the efficient mobilization and allocation of long-term capital. These markets facilitate the transfer of savings into productive investments through instruments such as stocks, bonds, and other securities. In doing so, capital markets support infrastructure development, corporate expansion, technological innovation, and overall economic growth.

The efficiency and maturity of a capital market are often seen as indicators of a nation's financial health and institutional development.

Commercial banks, long regarded as the backbone of financial intermediation, have historically focused on traditional banking services such as accepting deposits and providing loans. However, in response to financial liberalization, globalization, and technological advancement, the role of commercial banks has expanded significantly. In modern economies, commercial banks increasingly act as intermediaries between capital providers (investors) and capital seekers (corporations, governments, and other entities) in the capital market.

Their functions now include underwriting securities, managing investment funds, offering custodial and settlement services, providing credit enhancements, and facilitating secondary market transactions. In many jurisdictions, banks are key participants in the issuance of corporate bonds, support initial public offerings (IPOs), and manage portfolios of institutional investors through their asset management arms. The integration of banking operations with capital market infrastructure has contributed to greater financial inclusion, enhanced market liquidity, reduced transaction costs, and increased investor protection. Commercial banks also improve the informational efficiency of capital markets by leveraging their analytical capabilities and customer databases to assess creditworthiness and investment potential.

However, the extent and nature of commercial banks' participation in capital markets vary significantly across countries and regions. In advanced economies with liberalized financial sectors, banks operate alongside deep and liquid capital markets, often competing with non-bank financial institutions. In contrast, in many developing and transition economies, banks remain the dominant financial institutions, and capital markets are relatively underdeveloped. Factors such as regulatory constraints, limited institutional capacity, underdeveloped legal frameworks, and a lack of public trust in financial instruments hinder deeper integration.

LITERATURE REVIEW

The role of commercial banks in capital market development has been widely examined by both international and local scholars. According to Levine (1997), financial intermediaries, particularly commercial banks, are instrumental in mobilizing savings and allocating capital efficiently, which directly contributes to the deepening of capital markets. Demirgüç-Kunt and Maksimovic (1998) further argue that well-functioning banking systems enable firms to access long-term finance, facilitating capital market expansion. From a regional perspective, Allen and Gale (2000) highlight the complementary roles of banks and markets in economic development, emphasizing that banks often act as stabilizing agents during periods of market volatility. In post-transition economies, such as those in Central Asia, the interaction between banks and capital markets remains crucial for sustainable growth (EBRD, 2021).

In the Uzbek context, scholars like Sodikov (2020) have analyzed the transformation of commercial banks and their growing participation in capital market instruments, such as corporate bonds and equity underwriting. Karimov (2022) also notes that recent reforms in Uzbekistan's financial sector have significantly expanded the role of commercial banks in capital market infrastructure, including custody and brokerage services.

RESEARCH METHODOLOGY

In order to thoroughly investigate the relationship between the development of commercial banks and the performance of capital markets, this study employed a structured methodological approach. The research is based on a comparative analysis of ten countries, comprising five emerging and five developed economies, over the period 2015–2022. For each country, a consistent set of financial indicators was collected to ensure comparability and analytical accuracy. These indicators include the asset size of commercial banks expressed as a percentage of gross domestic product (GDP), the total market capitalization of listed companies, the number of initial public offerings (IPOs), and the volume of corporate bonds issued during the selected timeframe. These variables were chosen due to their relevance in reflecting the scale and activity level of both banking and capital market systems.

To evaluate the interrelationship between the banking sector and capital markets, a correlation analysis was conducted. This statistical technique allowed for identifying the degree and direction of association between the selected indicators. Furthermore, to go beyond mere association and test for potential causal effects, multiple linear regression models were applied. These models helped estimate the influence magnitude of commercial bank development on various dimensions of capital market growth, while controlling for other relevant macroeconomic variables. The use of a panel data framework ensured that both cross-country and over-time variations were captured, enhancing the robustness and reliability of the findings. This methodological structure provides a sound basis for drawing policy-relevant conclusions and proposing informed recommendations for financial sector development.

ANALYSIS AND RESULTS

Table 1. Banking sector and capital market metrics (2022).

	Bank Assets (% of GDP)	Market Capitalization (% of GDP)	Number of IPOs	Corporate Bond Volume (USD bn)
USA	92%	181%	210	1,280
Germany	78%	96%	42	450
Japan	110%	130%	61	890
India	78%	104%	153	310
Brazil	72%	63%	35	180
Uzbekistan	38%	14%	2	1.8

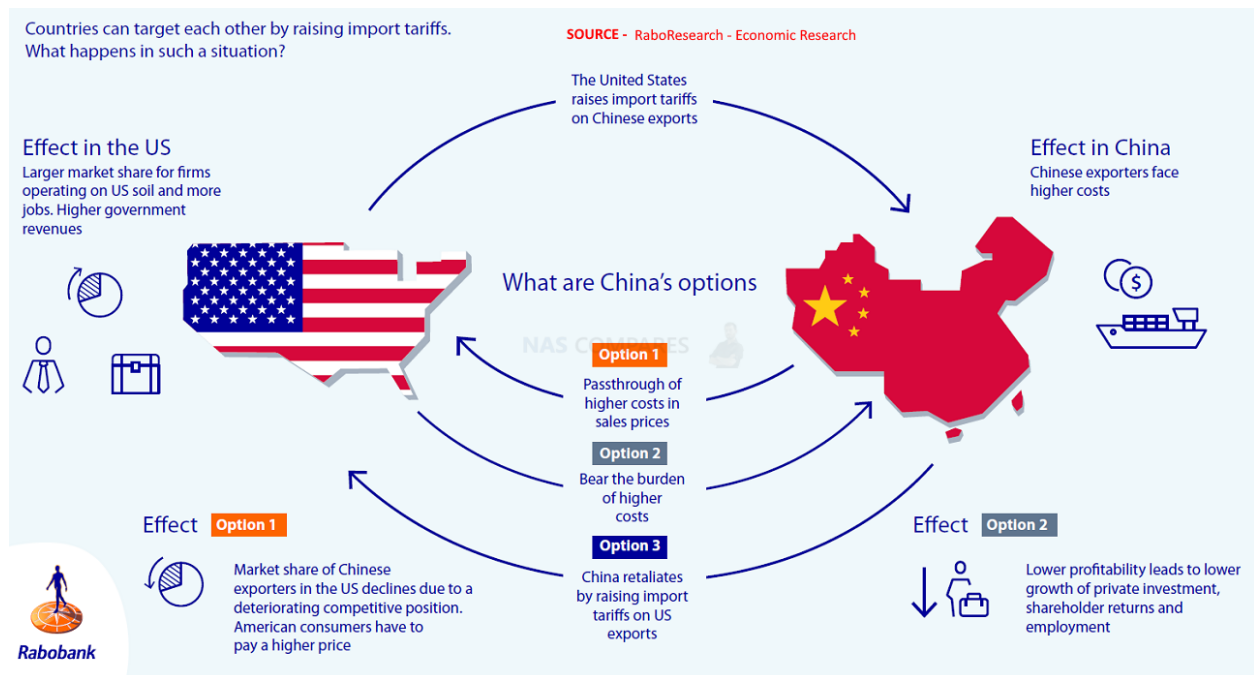


Figure 1. Correlation between bank asset growth and capital market capitalization.

The findings suggest a significant and positive relationship between the size and sophistication of commercial banks and the development of capital markets. In countries like the USA and Japan, strong bank participation in underwriting and asset management boosts investor activity and enables large-scale capital formation. In contrast, in emerging economies such as Uzbekistan, the underdeveloped banking sector limits access to long-term financing, thus stalling capital market expansion. Moreover, regulatory barriers, lack of financial literacy, and institutional weaknesses hinder banks' ability to engage in capital market services. Strengthening the institutional capacity of banks, encouraging regulatory reforms, and promoting digital financial services can enhance the effectiveness of commercial banks in capital market development.

CONCLUSION

Commercial banks play a pivotal role in the development of capital markets by facilitating investment, improving liquidity, and providing financial intermediation. Their involvement helps bridge the gap between savers and investors, driving economic growth. For emerging economies, enhancing the capabilities of commercial banks is a strategic priority to unlock the full potential of their capital markets.

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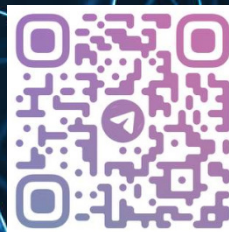
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