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Mechanisms for Ensuring The Investment Attractiveness of Commercial Banks Through The Securities Market

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Abstract: This article examines the role of the securities market in enhancing the investment attractiveness of commercial banks in Uzbekistan. The paper discusses the structure and dynamics of banks' securities operations, both active and passive, and highlights their significance for the national financial system. It analyzes domestic and international scholarly perspectives, legal frameworks, and empirical data from the Uzbek banking sector. Particular attention is given to the development of the primary and secondary securities markets, the challenges of regulatory efficiency, and the impact of sovereign securities performance. The study also addresses global market trends and risks arising from the integration of artificial intelligence in international financial markets. Based on the analysis, the author proposes strategies to strengthen financial reporting, introduce new investment instruments, and develop secondary markets to improve the investment appeal of commercial banks. The findings contribute to understanding how the securities market can support sustainable growth of Uzbekistan's banking system within the broader financial infrastructure.

Keywords: commercial banks, securities market, investment attractiveness, capital market, financial instruments, stock exchange, government securities, Eurobonds, banking system, Uzbekistan

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1. Introduction

Active operations with securities enable banks to maintain a presence in the most dynamic financial markets, expand their client base, broaden the range of services offered, strengthen their influence on customers, and provide opportunities to manage clients' assets through securities management. The scope of passive operations with securities is comparatively limited, primarily encompassing banks' issuance activities aimed at attracting additional financial resources. Banks issue both equity and debt securities (such as shares and bonds), as well as non-issuance securities (including deposit and savings certificates, bills of exchange, and derivative securities) [1].

In the Republic of Uzbekistan, banks as financial-credit institutions are authorized to conduct all types of operations in the capital market. Both banks and the securities market represent vital components of the national financial system. From the perspective of economic development, the core functions of the banking system and the securities market are the mobilization of temporarily free funds, their redistribution, and their allocation to the most profitable sectors of the national economy. The similarity of these functions, and therefore of the mechanisms for achieving them, transforms banks and other participants in the securities market into competitors for financial resources [2].

In fact, the high share of banks among participants in Uzbekistan's securities market helps to balance this competition. The securities market has increasingly become an additional source for both the application and attraction of financial resources for the banking system. Commercial banks participate in the securities market with multiple objectives, in particular: to generate profit from securities operations, expand and diversify their income base, ensure the liquidity of assets, reduce the overall level of risks, build a favorable institutional image, and attract new clients [3].

To reveal the characteristics of banks' activities in the capital market and the factors determining them, the following are required:

1. An analysis of the structure and dynamics of banks' operations with securities.
2. A study of the specific features of the structure and dynamics of securities operations of certain categories of banks in the capital market [4].
3. Identification of the factors that determine the dynamics and structure of banks' operations with securities.

In the Presidential Decree of the Republic of Uzbekistan No. PD-5992 of May 12, 2020, "On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020–2025", the necessity was emphasized to:

1. enhance banks' operations in the securities market,
2. reduce administrative barriers to the issuance and placement of corporate bonds and other instruments by commercial banks while simultaneously strengthening regulatory oversight, and
3. establish a legal framework for the placement of banks' securities in international capital markets Decree of the President of Uzbekistan PD-5992, 2020 [5].

Achieving these objectives requires a thorough analysis of the volume and structure of banks' securities operations. It should be noted that commercial banks in Uzbekistan currently consider the securities market as an auxiliary area of activity. However, in the business model of commercial banks, it plays an essential role, ensuring not only income generation but also the expansion of the client base through the provision of various financial services, which is of critical importance [6].

Literature Review.

In recent years, a number of domestic and foreign scholars have conducted research on the structural characteristics of commercial banks' operations with securities. In particular, according to L. Gitman and M. Jonk, the securities market represents a mechanism for transactions between suppliers and consumers of cash, while stock exchanges are centralized institutions that organize the interactions between buyers and sellers of specific securities. R. Tyulz, E. Bradley, and T. Tyulz emphasize that one of the key functions of the stock exchange—considered a crucial segment of the securities market—is the creation of a stable market for individual security issuances. In a stable market, securities are traded in large volumes, as fluctuations in current market prices are relatively insignificant [7].

According to V. Nikiforova, the trading system of the securities market represents a set of forms and methods of organizing securities trading, as well as the aggregate of professional participants who provide services within these processes. V. Galanov and A. Basov argue that, in general, the securities market can be defined as the totality of economic relations among its participants concerning the issuance of securities and their circulation [8].

Among domestic scholars, I. L. Butikov defines the "classical model of the stock exchange" as a wholesale market of high-quality securities that operates on a permanent basis and is organized by professional participants. Such an exchange is characterized by specific procedures and rules for conducting transactions, as well as granting access to trading for securities and brokers [9].

K. Tolipov, A. Obidov, and S. Razzakova note that under current legislation in Uzbekistan, commercial banks licensed for banking operations are entitled to act in the

securities market as investment intermediaries, trustees of investment assets, and investment advisors. Importantly, they are not required to obtain a separate license to conduct these professional activities [10].

Taking these insights into account, it becomes evident that the government of Uzbekistan places significant emphasis on the steady development of the banking system. Systematic measures aimed at raising capitalization levels and strengthening the resource base of banks have contributed to growing investor interest in bank shares listed on the stock exchange. This rising demand is closely tied to factors such as reliability, stability, consistent profit growth, and effective implementation of legislative norms on disclosure for shareholders.

2. Materials and Methods

In preparing this article, normative-legal documents, relevant literature, and reliable internet sources were critically and comparatively analyzed, with particular attention given to the scientific-theoretical perspectives of economists on the subject matter. In the course of the study, alongside general economic methods, systematic analysis, synthesis, abstract-logical reasoning, and statistical methods were employed [11].

3. Results and Discussion

In Uzbekistan, the development of both the primary and secondary securities markets, the enhancement of financial literacy among the population to stimulate interest in purchasing shares, and the establishment of securities trading as a significant source of income have not yet been fully ensured. Furthermore, the inefficiency of regulatory mechanisms in the capital market has hindered its effective development. Uzbekistan has therefore set new strategic objectives, including: increasing the capital market turnover from USD 200 million to USD 7 billion over the next five years; gradually liberalizing capital flows; improving liquidity in the corporate securities market; and developing the infrastructure of the capital market Decree of the President of Uzbekistan PD-60, 2022 [12].

Globally, the securities market is an essential component of the economy, with stock markets representing its indispensable segment. The total capitalization of securities listed on global stock exchanges reached USD 124.5 trillion in 2021, with the Americas accounting for 46 percent, the Asia-Pacific region (APAC) 32 percent, and Europe, the Middle East, and Africa (EMEA) 22 percent World Federation of Exchanges, 2022. Around the world, particular attention is given to expanding capital markets, increasing securities issuance, and broadening both individual and institutional participation [13].

In the Table 1 shows that, at present, financial instruments in the securities market are generally classified into two main categories. The first includes equity instruments such as shares, while the second consists of debt instruments such as bonds. In addition, derivative financial instruments based on ownership rights and obligations also form an integral part of the securities market.

Table 1. Consolidated Balance Sheet of Existing Commercial Banks in Uzbekistan

Indicators	01.01.2022 (bln UZS)	01.01.2023 (bln UZS)	01.01.2024 (bln UZS)	Change in 2024 compared to 2022 (+/-)
1	2	3	4	5
Assets				
Cash and other payment documents	10,686.3	19,309.1	20,201.8	9,515.5
Funds at the Central Bank	31,514.6	36,592.1	33,228.0	1,713.4
Funds in other resident banks	13,302.5	17,423.7	24,368.5	11,066.0
Funds in other non-resident banks	25,074.0	37,688.3	28,862.5	3,788.5

Investments and other securities	19,633.7	31,507.9	32,548.3	12,914.6
Clients' obligations on financial instruments	1,251.0	1,606.3	3,334.0	2,083.0
Net loans	316,382.4	378,909.2	457,847.1	141,464.7
Net fixed assets	11,031.9	14,242.9	19,874.9	8,843.0
Accrued interest on assets	9,387.1	12,295.3	19,249.8	9,862.7
Other private assets of the bank	1,339.4	3,065.5	4,483.5	3,144.1
Other assets	5,319.6	4,105.8	8,158.7	2,839.1
Total Assets	444,922.5	556,746.3	652,157.1	207,234.6
Liabilities				
Deposits	156,189.8	216,737.5	241,686.6	85,496.8
Central Bank accounts	708.8	784.3	1,345.1	636.3
Funds from other resident banks	13,288.6	18,780.8	24,577.0	11,288.4
Funds from other non-resident banks	4,670.8	22,798.5	20,073.5	15,402.7
Loans and leasing received	173,750.3	186,614.5	224,350.7	50,600.4
Issued securities	10,612.7	10,915.2	13,160.6	2,547.9
Subordinated debt	4,248.5	6,619.3	9,653.0	5,404.5
Accrued interest payable	3,960.0	5,487.1	8,106.5	4,146.5
Other liabilities	6,575.4	8,443.6	12,124.9	5,549.5
Total Liabilities	374,004.9	477,180.8	555,077.9	181,073.0
Capital				
Charter capital	54,760.0	59,856.7	68,643.0	13,883.0
Additional capital	675.5	997.5	1,338.8	663.3
Reserve capital	8,452.2	7,320.6	11,152.6	2,700.4
Retained earnings	7,029.9	11,390.6	15,944.8	8,914.9
Total Capital	70,917.6	79,565.4	97,079.2	26,161.6

According to consolidated balance sheet data, the total volume of investments and other securities-related operations carried out by commercial banks amounted to 32,548.3 billion UZS in 2024, an increase of 12,914.6 billion UZS compared to 2022. However, the share of these operations in total assets accounted for only 4–9 percent in 2024, which indicates that securities-related activities remain underdeveloped. The total issuance of securities by commercial banks reached 13,160.6 billion UZS in 2024, 2,547.9 billion UZS higher than in 2022, reflecting the gradual development of the securities market.

These dynamics create a complex ecosystem in which securities trading contributes to efficient resource allocation within the economy. According to the Tashkent Republican Stock Exchange, in January 2025 total trading volume reached 481.20 billion UZS (USD 37.13 million), a 1,599 percent increase compared to January 2024. Of this, 19.61 billion UZS (USD 1.51 million), or 4.07 percent, was conducted with securities listed on the official quotation sheet, while the remaining share occurred in the over-the-counter (OTC) market. The total number of transactions executed on exchange trading platforms amounted to 50,227, representing an 11.02 percent decrease compared to the previous year. Of these, 43,915 transactions involved listed securities, while 6,312 were carried out in the OTC market. By the end of January, listed securities accounted for transactions worth 19.61 billion UZS. The average daily trading volume stood at 891.20 million UZS (USD 69,000), with an average daily number of 1,996 transactions [14].

Equity market data further illustrate this trend. In 2025, equity market trading volume amounted to 16.10 billion UZS (USD 1.24 million), reflecting a decline of 31.38 percent compared to January 2024. The majority of trading volume (8.49 billion UZS) occurred on the Negotiated Deals Board. Market capitalization of the equity market fell by 5.14 trillion UZS (2.12 percent), reaching 237.28 trillion UZS (USD 18.31 billion), while the free float capitalization stood at 4.35 trillion UZS.

In the Table 2 shows that, the securities market, as a critical component of the financial system, encompasses various actors with distinct roles. Issuers, including government entities, municipalities, and private companies, raise capital by placing shares, bonds, and other instruments. Investors, both individuals and institutional entities (such as pension funds and insurance companies), purchase securities to generate returns. The interplay of economic factors influencing securities operations creates complex dynamics, shaping investment decisions and overall market activity.

Table 2. Key Indicators of the Equity Market

Indicators	Unit	2021	2022	2023	2024	2025
Trading volume	mln UZS	17,299	3,036,086	685,959	23,465	16,101
Average daily trading volume	mln UZS	865	151,804	32,665	1,067	738
Average transaction size	mln UZS	6	400	44	0.5	0.4
Number of transactions	units	3,014	7,598	15,630	49,425	43,610
Average daily number of transactions	units	151	380	744	2,247	1,982

Sovereign Securities and Banking Sector Indicators

According to the data presented in the table, the trading volume in the equity market amounted to 16.10 billion UZS (USD 1.24 million). Compared to January 2024, this figure decreased by 7.36 billion UZS, or 31.38 percent. The majority of the trading volume (8.49 billion UZS) was concentrated on the Negotiated Deals Board (Nego Board).

Furthermore, the market capitalization of the equity market declined by 5.14 trillion UZS, or 2.12 percent, amounting to 237.28 trillion UZS (USD 18.31 billion). The market capitalization of shares available for free float reached 4.35 trillion UZS.

The securities market constitutes an essential component of the financial system and, more broadly, of the national economy. It encompasses various elements, each playing a distinct role in its functioning. Specifically, issuers—such as government entities, municipalities, or private companies—raise capital by issuing securities. Issuers may place shares, bonds, and other financial instruments. At the same time, investors, who purchase securities to generate returns, represent another key group of participants. Investors may include both individuals and institutional investors, such as pension funds and insurance companies.

The economic nature of the factors influencing securities operations encompasses numerous aspects that can significantly affect the securities market and investment decisions. These factors are interrelated, creating a complex dynamic that shapes the execution of securities transactions. Understanding the economic essence of these factors enables market participants to make more informed decisions when engaging in securities trading.

In particular, in 2023 the key policy rate of the Central Bank of Uzbekistan remained unchanged, and due to the relatively balanced demand and supply conditions, no sharp fluctuations were observed in the yield of government securities. The yield on government securities in 2023 amounted to 17.4 percent. The yield on Uzbekistan's sovereign Eurobonds denominated in foreign currency also remained stable throughout 2023.

Specifically, the yield of Eurobonds maturing in 2029, 2030, and 2031 stood at around 6.5 percent.

Furthermore, in 2023 the spread between the yields of long-term Uzbekistan sovereign Eurobonds and U.S. Treasury bonds, considered as a benchmark, declined compared to 2022. The risk level associated with short-term Uzbekistan sovereign Eurobonds was assessed by investors as relatively lower during the second half of 2023 [15].

As of January 1, 2025, total assets of the banking system amounted to 769 trillion UZS, with loans accounting for 67 percent. Funds in other banks, investments, and other securities accounted for 16 percent of total assets. The share of securities in bank assets and the yield of government securities thus serve as critical indicators of both the condition of the financial system and banks' asset management strategies.

At the same time, operational risks in international financial markets are rising due to the rapid integration of artificial intelligence (AI) and advanced technologies. While AI improves efficiency, it also introduces challenges such as potential market manipulation, increased volatility, and systemic vulnerabilities. AI-driven trading systems may amplify fluctuations, while dependency on a small number of providers could result in uniform behavior, further destabilizing financial systems. Such factors could restrict foreign investment and complicate the attraction of external financial resources.

4. Conclusion

Enhancing the investment attractiveness of commercial banks through the securities market is a critical objective that requires a comprehensive approach. Several strategic directions deserve particular attention:

1. Improving financial reporting to ensure regular and transparent disclosure of financial information (e.g., balance sheets, income statements), thereby strengthening investor confidence.
2. Introducing new investment instruments such as bonds, equities, and mutual funds, as well as leveraging technology to develop innovative formats of securities, including asset tokenization.
3. Developing the secondary market for banks' securities to enhance their liquidity and attractiveness to investors, while facilitating broader cooperation with capital markets and brokerage firms.

The implementation of these strategies will not only increase the investment attractiveness of commercial banks but also consolidate their position in the financial market, contributing to the sustainable development of Uzbekistan's financial system.

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