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HOW COMMERCIAL BANKS CONTRIBUTE TO THE EXPANSION 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 to 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

1. 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.

Given these dynamics, understanding the role of commercial banks in shaping and supporting capital market development is both theoretically important and

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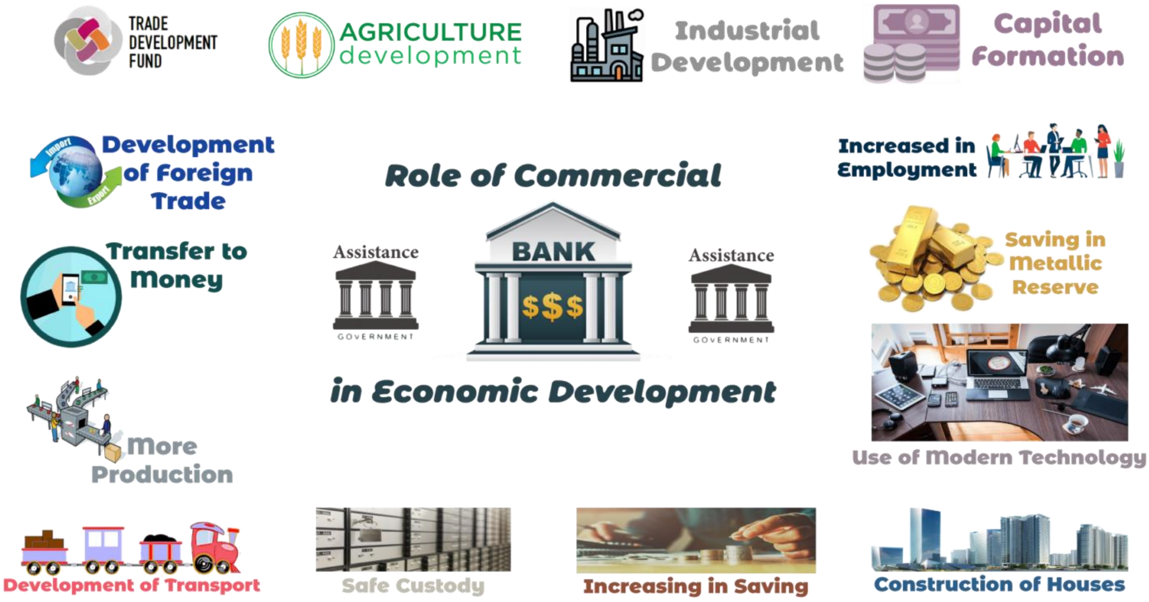
practically relevant. This study aims to explore the depth of this relationship, identify key drivers, and provide policy recommendations for countries seeking to strengthen their capital markets through strategic engagement with commercial banking institutions.



2. Methods

2.1 Data Collection

We analyzed data from 10 countries (5 emerging and 5 developed markets) for the period 2015–2022. Indicators included:

- Commercial banks' asset size (as % of GDP)
- Market capitalization of listed companies
- Number of IPOs
- Volume of corporate bonds issued

2.2 Analytical Approach

A correlation analysis was used to evaluate the relationship between commercial bank development and capital market indicators. Regression models were applied to assess causality and influence magnitude.

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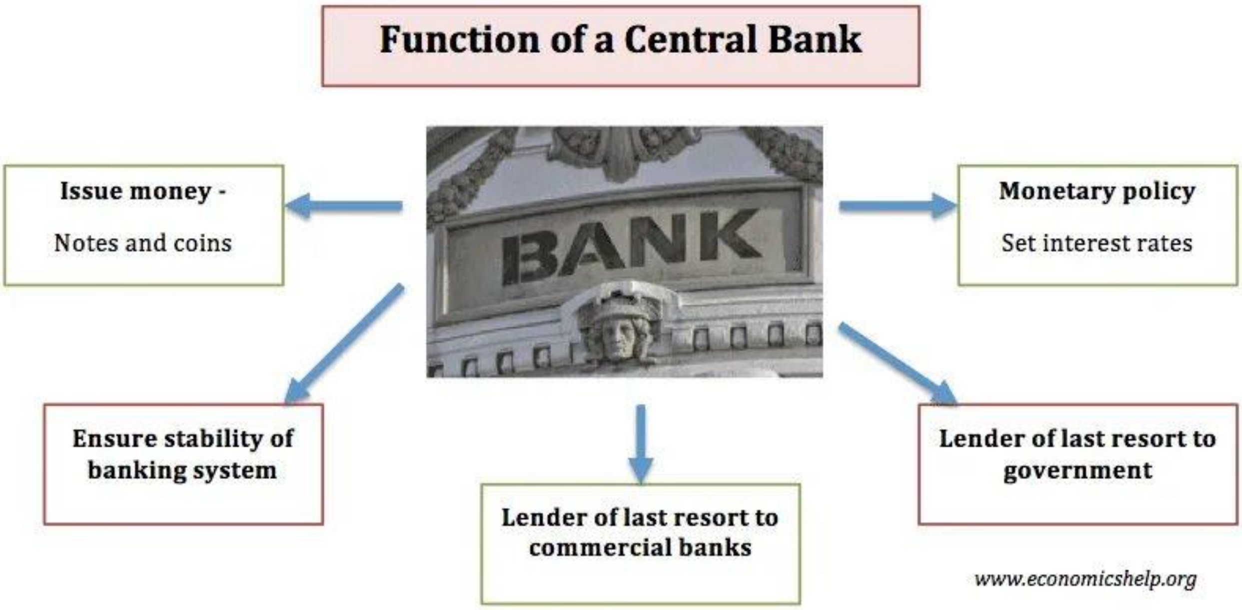

3. Results

Table 1. Banking Sector vs. 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

4. Discussion

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.

5. 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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