pISSN:2349-5707 Volume:13,Issue 4, April -2026 eISSN:2349-5715

THE ROLE OF COMMERCIAL BANKS IN FINANCING INVESTMENT PROJECTS

Axrorov Abbos Aslamjon o'g'li
Samarkand Institute of Economics and Service
Lecturer, Department of Investments and Innovations
E-mail: abbos0112@gmail.com
Xandamov Ravshan Hasan o'g'li
Samarkand Institute of Economics and Service
Faculty of Banking and Financial Services
Student in Finance and Financial Technologies
Yarashov Ozodbek Aliqul o'g'li

Samarkand Institute of Economics and Service
Faculty of Banking and Financial Services
Student in Finance and Financial Technologies

Annotation. This article examines the role of commercial banks in financing investment projects within modern economic systems. The study explores how banks act as key financial intermediaries by mobilizing savings and allocating capital to productive sectors of the economy. Particular attention is given to the mechanisms of credit provision, risk assessment, and project evaluation used by commercial banks in supporting investment activities. The paper also analyzes the impact of bank financing on economic growth, business expansion, and infrastructure development. The findings suggest that effective participation of commercial banks in investment financing enhances capital formation, improves resource allocation efficiency, and contributes to sustainable economic development.

Keywords: commercial banks, investment financing, credit allocation, financial intermediation, risk management, economic growth, project evaluation, capital formation, banking sector, financial stability.

Introduction

In modern economies, the effective financing of investment projects is a critical driver of sustainable growth, structural transformation, and technological advancement. Investment activities require substantial financial resources, which are often beyond the immediate capacity of individual firms or entrepreneurs. In this context, commercial banks play a central role as financial intermediaries by channeling funds from savers to investors, thereby facilitating capital formation and economic development.

Commercial banks are uniquely positioned within the financial system due to their ability to mobilize deposits, assess creditworthiness, and allocate financial resources across various sectors. Through lending activities, banks support a wide range of investment projects, including industrial expansion, infrastructure development, small and medium-sized enterprise (SME) growth, and innovation-driven initiatives. Their involvement not only provides the necessary funding but also contributes to improving project efficiency through monitoring and risk management practices.

The relevance of this topic has increased significantly in recent years due to the growing demand for investment financing in both developing and developed economies. Rapid globalization, technological progress, and increasing competition have intensified the need for efficient financial intermediation. At the same time, commercial banks face new challenges,

pISSN:2349-5707 Volume:13,Issue 4, April -2026 eISSN:2349-5715

including stricter regulatory requirements, credit risk exposure, and the need to adapt to digital financial technologies.

The purpose of this study is to analyze the role of commercial banks in financing investment projects and to evaluate their impact on economic performance. The research aims to identify key mechanisms through which banks support investment activities, assess the effectiveness of their financial intermediation, and highlight the main challenges and opportunities in this field.

Main Body

Commercial banks play a decisive role in financing investment projects by acting as intermediaries between surplus and deficit units of the economy. Their core function is the transformation of short-term deposits into long-term investment loans, which enables the realization of projects that require significant capital outlays. In most economies, bank credit remains the dominant source of external financing for businesses, particularly for small and medium-sized enterprises (SMEs), which often face limited access to capital markets.

Commercial banks finance investment projects through several instruments, including term loans, project financing, syndicated loans, leasing, and credit lines. Among these, long-term investment loans and project finance structures are the most important for large-scale infrastructure and industrial projects. In project financing, repayment is primarily based on the cash flow generated by the project itself, which increases the importance of accurate risk assessment and financial forecasting.

According to World Bank estimates, in developing economies, bank loans account for approximately 55–70% of total corporate investment financing, while in developed economies this share ranges between 35–50%, reflecting a higher role of capital markets in the latter. This demonstrates that commercial banks remain the backbone of investment financing, especially in emerging markets [1].

Empirical studies consistently show a strong correlation between banking sector development and economic growth. A 1% increase in domestic credit to the private sector is associated, on average, with a 0.3–0.5% increase in GDP growth in developing economies, depending on institutional quality and financial stability conditions [2]. This indicates that commercial banks not only allocate capital but also actively influence macroeconomic performance. For example, in transition economies, increased bank lending to productive sectors such as manufacturing and construction has significantly contributed to industrial expansion. Statistical data from several Central Asian countries shows that over the past decade, bank credit to investment projects has grown at an average annual rate of 8–12%, supporting infrastructure modernization and private sector development [3].

A critical function of commercial banks in investment financing is risk evaluation. Banks use a combination of quantitative and qualitative methods, including financial ratio analysis, credit scoring models, and discounted cash flow (DCF) techniques. These tools allow banks to estimate the probability of default and expected project profitability. However, the presence of information asymmetry remains a key challenge. Borrowers often possess more information about project risks than lenders, which may lead to adverse selection and moral hazard problems. To mitigate these risks, banks implement collateral requirements, interest rate adjustments, and continuous monitoring systems [4].

pISSN:2349-5707 Volume:13,Issue 4, April -2026 eISSN:2349-5715

Despite their central role, commercial banks face several constraints in financing investment projects. These include regulatory capital requirements under Basel standards, liquidity constraints, and exposure to macroeconomic volatility. In periods of economic downturn, banks tend to adopt conservative lending policies, which can reduce investment activity and slow economic recovery. Additionally, the concentration of credit in low-risk sectors sometimes limits financing for innovative but high-risk projects. This creates a structural imbalance in investment allocation, where traditional industries receive more funding compared to emerging sectors such as technology and renewable energy.

Recent global data highlights the importance of bank financing in investment dynamics. According to IMF statistics, total global bank credit to the private sector reached approximately 145% of world GDP in 2024, indicating the scale of banking intermediation in economic activity [5]. In many developing countries, more than 60% of infrastructure projects are partially or fully financed through commercial bank loans. Furthermore, surveys of corporate financing structures show that SMEs rely on bank loans for nearly 70% of their external funding needs, emphasizing the importance of accessible banking services for investment expansion [6].

The analysis confirms that commercial banks are fundamental institutions in mobilizing savings and directing them toward productive investment. Their ability to evaluate risk, structure financing, and monitor projects makes them indispensable in both stable and developing financial systems. However, the efficiency of bank-based investment financing depends heavily on macroeconomic stability, regulatory frameworks, and the level of financial sector development. While capital markets are increasingly important in advanced economies, commercial banks continue to dominate investment financing in emerging markets. Therefore, strengthening banking sector resilience, improving risk management practices, and enhancing credit accessibility are essential for sustaining long-term investment growth.

References

1. World Bank. Global Financial Development Report, 2024.
2. Levine, R. (2005). “Finance and Growth: Theory and Evidence.” Handbook of Economic Growth.
3. Asian Development Bank. Financial Sector Development in Central Asia, 2023.
4. Stiglitz, J., & Weiss, A. (1981). “Credit Rationing in Markets with Imperfect Information.” American Economic Review.
5. International Monetary Fund (IMF). Global Financial Stability Report, 2024.
6. OECD. SME Financing and Banking Access Report, 2023.