

Capital Market Development Practice in the Republic of Uzbekistan

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Abstract. The introductory part of this article presents the changes taking place in the Republic of Uzbekistan on the further development and regulation of the capital market, which is a key segment of the financial-credit system. Theoretical and scientific research of leading foreign and domestic economists on the economic nature of the capital market is studied. Segments of the capital market are considered, in particular, analytical data on international and national stock markets are presented. According to the author's position, the problems hindering the extensive development of the capital market are listed. The final part of the article contains conclusions and proposals for further development of the capital market.

Keywords: Financial-credit system, capital market, corporate structures, companies, capital attraction, stock market, market capitalization.

Introduction

Any business entity, whether it is an individual or a legal entity, definitely needs additional financial resources to carry out some of its activities. It is known that today, as a source of financing for many projects, the funds provided by the state or loans from commercial banks serve as the main support. Therefore, it is clear as day that one of the main tasks facing our government in terms of the development of the financial and credit sector is the development of the capital market. As a normative and legal basis for the work to be done in this regard, we certainly have the Decree No. PF-6207 [1] adopted by the President of the Republic of Uzbekistan on April 13, 2021 and on January 17, 2022 We should mention Decisions PQ-90 on "Additional measures to introduce effective mechanisms for supporting the capital market"[2]. In these regulatory documents, the main directions of the development of the capital market were defined, including the following:

In particular:

- increase the competitiveness of the capital market and increase its capitalization to 45 trillion by the end of 2023 year to soum, to create an effective financing mechanism that is an alternative to bank lending;
- creating a legal framework that ensures the integrity of the capital market regulation and the prevention of systemic risks;
- coverage of 40,000 people by the end of 2023 within the framework of programs to support the improvement of knowledge, skills and financial literacy of minority investors, other participants of the capital market and the general population;
- from April 1, 2022 to December 31, 2024, the income of individuals who are residents and non-residents of the Republic of Uzbekistan in the form of dividends calculated on shares will be exempted from income tax;
- The profit tax rate of 5 percent is applied to the income of legal entities that are non-residents of the Republic of Uzbekistan in the form of dividends calculated on shares, as for legal entities that are residents of the Republic of Uzbekistan;
- Interest income of individuals and legal entities who are residents and non-residents of the Republic of Uzbekistan on the bonds of economic companies are exempted from income tax from individuals and profit tax from legal entities.

The importance of the tasks defined in the above normative documents indicates the urgent importance of the work being carried out on the further development of the capital market in our country.

Literature Review

Many economists have conducted scientific research on the economic essence, necessity, classification of the capital market and its role in the financial and credit system. In the course of our research, we studied

the opinions expressed by world and local leading economists about the meaning of the economic category "capital market". According to U.Azizov, one of the leading scientists of the field, the capital market plays an important role in the attraction of idle funds of the population to economic sectors and the increase in the flow of foreign direct investments. In turn, the fact that the stock market competes with the credit market as a component of the financial market creates a unique competitive environment in the capital market. And the population will benefit from this because of the increase in economy and well-being[3]. According to another leading economist Professor S. Elmiraev, cash, short-term means of payment, and short-term savings up to one year are organized in the money market. In the capital market, the circulation of "long money" is organized, in which mainly stocks and bonds are valid. The transaction period is more than one year. The main difference between the capital market and the money market is explained by the use of long-term investments[4]. Another economist, H. Khasanov, believes that the main criterion for determining the economic nature of the capital market is the interdependence of functions related to the redistribution of capital between market participants and the transformation of capital from savings to investments[5].

If we look at the history of economic teachings, when it comes to capital, it is impossible not to remember the famous economist - the "capitalist" Karl Marx. According to his interpretation, "The capital market is the market of money or material resources necessary for production activities. Capital can be manifested in material and monetary form. The market of material assets and the market of monetary capital are different from each other[6]. According to A. Smith, the founder of classical political economy, "The capital market is a segment of the financial market where long-term credit resources, as well as securities with a maturity of more than one year, are sold or bought"[7]. In the researches of J.Keynes, the founder of the Keynesian macroeconomic current, it was interpreted as "Capital market - a system of economic relations related to the formation of demand and supply for medium and long-term credit capital and the redistribution of free capital"[8].

Modern economists N.I.Berzon, E.A.Buyanov explained the capital market as an integral part of the general market of production factors. They believe that to understand this, it is necessary to define the content of the category "capital". That is, it is accepted that capital is money, wages, investments for the development of production [9]. According to Professor G. N. Beloglazova, Honored Scientist of the Russian Federation, Member of the Academy of Management and Market, "The capital market is a part of the financial market in which long money, that is, funds with a maturity of more than one year, are in circulation"[10]. In the scientific research of M.I. Kosimova, an economist from neighboring Tajikistan, who conducted direct research on the role of the capital market in the economy, "In a narrow interpretation, the capital market can be considered as a factor of production and the basis of production relations. In a broad sense, capital, material, financial and intangible assets are understood as a set of interrelated markets, that is, as an object whose use brings additional benefits"[11].

Based on the above, it can be noted that, in our opinion, it is appropriate to consider the capital market as the main segment of the economy, including the financial and credit system.

Research Methodology

The main goal of this study is to develop scientific and practical proposals and recommendations for the further development of the country's financial and credit system, in particular, the effective functioning of the capital market, which is considered as the main segment of the financial market. As a result, individuals and legal entities will be able to find financial resources to finance their investment projects in the capital market. Scientific abstraction, statistical observation, comparison, grouping, induction and deduction methods were used in the research process. As a result of the research, scientific and practical proposals were developed for the more effective operation of the country's financial and credit system through the development of the capital market.

Analysis And Results

It is not a secret that the financial and credit system of the countries is adding new elements to its structure as time is rapidly developing. It is no exaggeration to say that together with the financial and credit system, its components are also being updated. Some time ago, real assets were considered as the basis of profit or income, but today the term capital means mainly the assets of corporate structures in the form of money and

securities. Therefore, it is reasonable to define the capital market as "an economic space in which money and stock assets are traded." We first considered it necessary to define the structure of the capital market and consider it in Figure 1 below

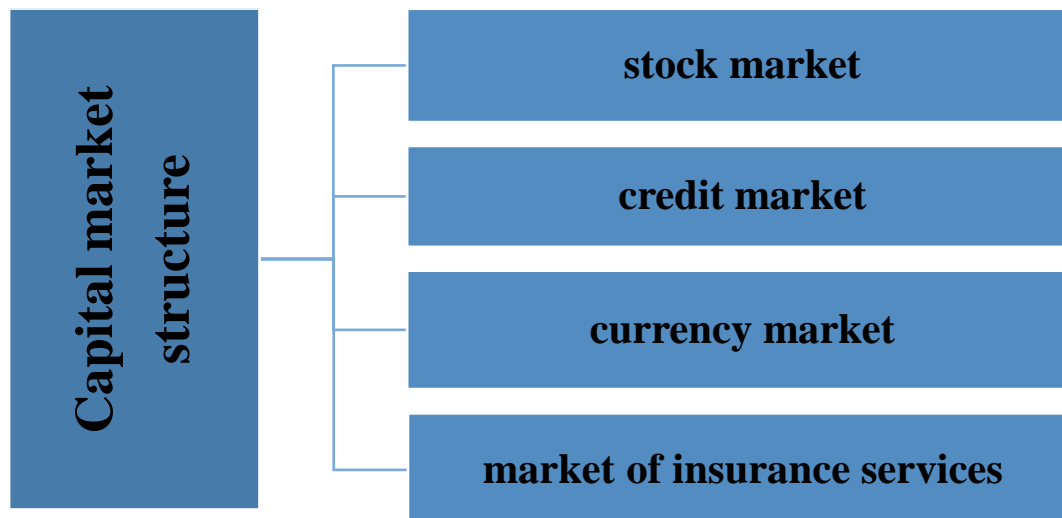


Figure 1. Composition of the main functions of the capital market¹

We can see from Figure 1 that certain conditions must be created for the capital market segments to operate effectively in the country's economy. The largest segment of the capital market is the currency market, because it carries out a large number of transactions. Because the foreign exchange segment serves foreign trade operations, and here the most speculative operations are carried out, which earn from changes in the exchange rate. The second largest segment of the capital market is the market of insurance services. Most of the income comes from insurance premiums. Companies that provide this type of service can be of various sizes, but the largest players are multinational companies. It serves the interests of the manufacturing sector as well as the household sector.

Another important segment of the capital market is the stock market. After all, the stock market is one of the most important sources of financing and is generally recognized as a barometer of the economy[12]. It trades various types of securities, as well as derivatives - futures and options. This segment encourages depositors to more active investment activities and, most importantly, allows redistribution of funds. Representatives of the real sector often keep part of their financial assets in securities in order to obtain additional financial income. In addition, they use investment portfolios that allow them to spread risks and returns over different time periods. Stock market performance around the world is constantly influenced by government intervention policies. In the first half of 2020, after countries around the world declared the COVID-19 pandemic, stock markets recorded unprecedented high volatility (volatility), even compared to levels during previous global financial crises (e.g., 1930, 1987, and 2008) and during the Spanish flu, SARS, and Ebola pandemics[13].

It is known that the effective functioning of the capital market can be evaluated in some sense by characterizing the share of the market capitalization of joint-stock companies in the country's GDP. Taking this into account, we found it necessary to analyze the share of the market capitalization of joint-stock companies, which are among the most active subjects of the capital market, in the country's GDP. We can observe it in the table below

¹Formed by the author.

Table 1
The ratio of the total market capitalization of world companies to the country's GDP²

No	Country name	Total market capitalization of companies (in millions of US dollars)		Companies the ratio of the total market capitalization to the country's GDP (in %)	
		Comparative period (year)			
		2010	2020	2010	2020
1.	USA	17,283,452	40,719,661	115.3	194.5
2.	Russian Federation	951,296	694,739	62.4	46.8
3.	People's Republic of China	4,027,840	12,214,466	66.2	83.0
4.	Germany	1,429,719	2,284,109	42.1	60.0
5.	Republic of Korea	1,091,911	2,176,190	95.4	133.5
6.	Kazakhstan	26,673	45,202	18.0	26.6

From Table 1 above, we can see that in 2010, the total market capitalization of US companies was 115.3 percent of the country's GDP, and in 2020, this figure was 194.5 percent. We would explain this by the activities of companies that provide digital financial services in this country. In fact, this figure could have been even higher if the COVID-19 pandemic had not started. In the last 10 years in the Republic of Korea, this indicator moved towards positive numbers, that is, it increased from 95.4 percent in 2010 to 133.5 percent in 2020. The table shows that the ratio of the total market capitalization of the companies of the rest of the countries to the country's GDP did not reach 100 percent. But we should emphasize that in neighboring Kazakhstan, the share of the market capitalization of JSCs in the GDP was 26.6 percent by 2020. Unfortunately, the relevant analysis of the World Bank does not provide information on the situation in the Republic of Uzbekistan. For comparison, we examined the data of another information source. That is, as of the beginning of January 2020, 149.5 trillion of 598 joint-stock companies are in the Central Depository of Securities. the issue of securities with a nominal value of soums was kept[14]. According to the data, by the end of 2020, the Republic of Uzbekistan has 580.2 trillion. GDP of soums was created[15]. Based on these data, we can see that the share of the total capitalization of JSCs in the GDP of our country was 25.7 percent.

During our analysis, we also considered the participation of joint-stock companies in the stock market last year. As of January 1, 2022, securities of 607 joint-stock companies were registered in the Central Securities Depository, amounting to 12,211 billion units, the nominal value is 153,047.94 billion we can observe that soum shares were issued. The issue of shares in 2021 will be 3,545.68 billion compared to last year. increased to soums. Another noteworthy aspect is that as of January 1, 2022, 125,322.1 bln. in 234 out of 607 JSCs operating in our country. There is a state share equal to 2,279.0 billion soums compared to the previous year 2020 decreased to soum [14]. But it can be seen that today the share of the state in the total market capitalization of joint-stock companies is still very high.

- From the above figures, we can conclude that, in our opinion, there are some issues that hinder the extensive development of the capital market in our republic. To them:

- extreme monopolization of bank loans compared to other financing sources;
- the fact that the level of activity of the secondary stock market is very low (under the influence of objective and subjective reasons);
- Financial instruments specified in the Law "On Securities Market", but not allowed to be used in practice;
- the existence of several regulatory documents on the regulation of the capital market (sometimes one regulatory document negates the other);
- we can cite controversial situations such as the level of financial literacy of the majority of society members and the low level of interest in capital market activity.

² Formed by the author based on data from <http://wdi.worldbank.org/table/5.4>

Conclusions And Suggestions

In conclusion, the necessary measures are being implemented for the effective functioning of the capital market in our country. In this regard, leading economists of higher educational institutions, various practitioners and foreign economic experts are also expressing their opinions regarding the development of the capital market in their scientific research. Above, based on the opinions of economists, we created the following definition of the economic category of the capital market: "The capital market is an economic space where financial resources with a term of more than one year are in circulation as a segment of the financial market in which medium-term and long-term operations are carried out."

In our opinion, it is appropriate to put into practice the following proposals related to the further development of the capital market:

1. In order to increase the financial literacy of the population, to establish a TV channel that broadcasts economic and analytical columns directly in the MTRK system;
2. Allowing the practice of using all financial instruments specified in the Law "On the Stock Market";
3. Development and implementation of the Law of the Republic of Uzbekistan "On the Capital Market" in order to systematize and simplify the regulation of the capital market in recent years, etc.

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