



# THE SECURITIES MARKET AS A FACTOR IN ACTIVATING THE INVESTMENT PROCESS

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## ABSTRACT

*This article examines securities and the securities market as a means of attracting foreign investment. The stages of formation and development of the securities market in the Republic of Uzbekistan are analyzed. The regulatory and legal framework of the securities market has been studied in detail, as well as an analysis of the current state of securities in the Republic of Uzbekistan.*

**KEYWORDS.** *Foreign investments, securities, stock market, investor, shares, bonds, Eurobonds, bill of exchange, certificates of deposit.*

## INTRODUCTION

It is known from world practice that no country can develop without foreign capital inflows. Therefore, the attraction of foreign capital can be defined as a priority direction of the country. In particular, countries in transition economies tend to import more capital because it makes harder for the country to meet the demand for financial resources from its own funds. For the economy of any country, the role of foreign investment is greater and more important than domestic investment. After all, foreign investment comes not only in the form of money, but also attracts highly qualified specialists, the latest techniques of management, as well as modern equipment and technologies.

The transition to market relations in Uzbekistan necessitated the formation of a stock market, which over the years has turned into a stably functioning institution with an established circle of participants and a developed infrastructure. However, until recently, its role as an effective mechanism for attracting funds for investment and stimulating production growth is insignificant. One of the most important problems in Uzbekistan is the lack of investment in the presence of obsolete facilities created in the era of the USSR. Huge financial resources are needed, which enterprises are not able to generate from internal sources. In this regard, the role and importance of the stock market in the development of the economy can hardly be overestimated. In order to ensure the inflow of investments into the real sector of the economy and prevent the emergence of crises, it is necessary to study the mechanism of the stock market in a transforming economy, the reasons for its ineffective functioning and to develop measures of state influence that contribute to the development of the stock market in the country.

## LITERATURE REVIEW

Among the foreign authors who dealt with the problems of attracting investments, the stock market and pricing should be named W. Sharp and his fundamental work "Investments"; Analysis of Securities by B. Graham and D. Dodd; the theory of reflexivity presented in the works of J. Soros. R. Tewles, B. Williams, E. Bradley, D. Garner dealt with the issues of the influence of stock market development on economic growth, ownership structure as a factor determining the model of a market economy, clarification of the causes and substantiation of methods for preventing financial crises, and development of policies for the development of national stock markets. The theoretical aspects of the formation of the market infrastructure are reflected in the works of H. Singer, P. Samuelson. The most in-depth studies in this area were carried out by specialists from the World Bank, the International Monetary Fund, the International Organization of Securities Commissions, and the World Federation of Exchanges.

Special attention is paid to this issue in the scientific works of economists of our republic H.Akramov, U.Aliev, I.Alimov, I.Butikov, N.Jumaev, V.Kotov, F.Mirzaev, E.Nosirov, M.Khamidulin, F.Khamidova, Shokhazamiy, F.Yuldashev, T. Yadgarov, J. Karimkulov, U. Khalikov, H. Khudoikulov, A. Khojamurodov.



## RESEARCH METHODOLOGY

In the scientific paper, analysis and synthesis, systematic approach, abstract-logical thinking, economic analysis, grouping, expert evaluation and comparison methods were used.

## ANALYSIS AND RESULTS

In the Law of the Republic of Uzbekistan "On the Securities Market" (new edition), securities are defined as follows, "Securities - documents certifying property rights or loan relations between the legal entity that issued these documents and their owner, providing for the payment of income in the form of dividends or interest and the possibility of transferring rights arising from these documents to other persons". [1]

This law defines the following securities:

Share, a bill of exchange, government securities, certificate of deposit, corporate bonds, bond, international bond, option, futures on securities, treasury obligations of the Republic of Uzbekistan.

Securities are the most effective means of attracting foreign investment. In turn, it is necessary to dwell on the role and formation of the stock market in the Republic.

In March 1991, the Tashkent Universal Commodity and Stock Exchange was established in the Republic as an open joint-stock company. In January 1992, the stock department of the Tashkent Stock Exchange began regular trading in securities for the first time in the country. In June 1992, the Law of the Republic of Uzbekistan "On exchanges and exchange activities" was adopted. This law introduced significant changes in the activities of stock exchanges and established mandatory requirements. According to the law, the authorized capital of the exchange was to be at least 50 million rubles. Exchanges could not create any trading structures. Ministries, agencies, state committees and others could be the founders of the exchange. [8]

The Law "On Securities and Stock Exchanges" adopted on September 2, 1993 was an important event in the development and regulation of the stock market of Uzbekistan. This Law used to regulate the activities of the stock exchange and other professional participants in this market, as well as determine the legal status of the issuer of securities (shares, bonds, treasury obligations, derivatives, certificates of deposit, bills of exchange). [3]

On April 8, 1994, in accordance with the Presidential Decree No. 745 of January 21, 1994 "On measures to further deepen economic reforms, protection of property and ensuring the development of entrepreneurship", the Republican Stock Exchange "Tashkent" was established. In 1995, branches of RSE "Tashkent" were established in Andijan, Camarkand, Bukhara and other regions. These branches began to represent the interests of the exchange in the regions of the Republic.

In accordance with the Presidential Decree No. PF-1414 of March 26, 1996, the Center for Coordination and Development of the Securities Market under the State Competition Committee of the Republic of Uzbekistan was established. The Center has been designated as the state body responsible for regulating the securities market.

On April 25, 1996, the Law of the Republic of Uzbekistan "On the mechanism of the securities market" was adopted. This law established liability measures for securities market participants, as well as for non-compliance of securities market participants with the legislation.

On April 25, 1996, the Law "On Joint Stock Companies and Protection of Shareholders' Rights" was adopted. This law stipulates the protection of the rights and interests of the joint-stock company, its organization, management, operation, liquidation of the organization, investors and shareholders.

On August 29, 1998, the Law of the Republic of Uzbekistan "On the activities of depositories in the securities market" was adopted. Under this law, a two-tier system of depositories was created: the state depository and the secondary depository.

In 1997-2000, the government short-term bond market was formed. In 2001-2006, new securities appeared: certificates of deposit, corporate bonds, bonds of the Central Bank.

On July 22, 2008 the law "On the securities market" was adopted. This law included 4 previously adopted laws: "On securities and stock exchanges", "On the mechanism of the securities market", "On the activities of depositories in the securities market" and "On protection of investors in the securities market." In 2015, the law "On the securities market" was adopted in a new edition. Simplification of the procedure for issuing securities through the introduction of information and communication technologies, the conclusion of transactions with securities are among the distinguishing features of the new law. The requirements for professional participants in this market have also been revised. [1]

On August 29, 2016, thanks to the efforts of the State Competition Committee and the Korean Stock Exchange, a new Single Software and Technical Complex was launched in the stock market.

In accordance with the Resolution of the President of the Republic of Uzbekistan dated January 14, 2019 PQ-5630 "On measures to radically improve the system of management of state assets, antitrust regulation



and capital market management", the Capital Market Development Agency of the Republic of Uzbekistan was established. The Agency is the successor of the Center for Coordination and Development of the Securities Market under the State Competition Committee of the Republic of Uzbekistan. The highest body of the agency is the Cabinet of Ministers of the Republic of Uzbekistan. The Agency is the state body authorized to regulate the securities market.[6]

If we analyze the history of the development of the Republic's stock market, we have now created a legislative framework and the necessary infrastructure of the stock market. The regions have a well-developed network of branches and representative offices, a technologically advanced stock exchange, and coordination and development bodies that contribute to the comprehensive development of the stock market. However, it should be noted that today the mechanism of the stock market in our country is not as efficient as in other countries. According to the results of 2017, the turnover of the largest exchange - RSE "Tashkent" amounted to only \$ 37.8 million, or 0.12% of GDP. [9]

World practice shows that one of the strongest segments of the investment market in developed countries is the stock market, which helps to accumulate large investment recurrences and achieve maximum mobility of investments. At the current stage of development of the economy, the stock market is not ready to solve the problems associated with providing the economy with investment recurrencies.

Despite the positive trends in the stock market, it remains one of the weakest elements of the country's financial system. In the early stages of the formation of the Uzbek stock market, it played a narrow role, one of the leaders of which was technical support for the privatization of shares of state-owned enterprises. In this regard, a primary market has emerged in Uzbekistan, but it has its own characteristics: it was used only in the process of privatization, in most cases there was almost no public placement. Thus, a large proportion of the issuance of shares by enterprises was not related to attracting investment. In modern conditions, the function of redistribution of property rights is losing its significance - privatization has ensured the emergence of private property owners. The need for a developed stock market will increase in the context of further liberalization of economic policy and deepening global integration.

The main goal of the functioning and development of the stock market in Uzbekistan should be to attract strong sources of investment to restore modern production and ensure its future growth. That is, in our opinion, such sources of investment should be directed primarily to the implementation of projects of innovative and technological modernization of the production co-haci. Improving the system of regulation of the securities market in the country requires the identification of priority areas of public policy in the stock market and the development of measures for its further development, the formation of a unified approach to regulating the activities of both banking and non-bank financial institutions.

According to the Law "On Foreign Investments", foreign investors can invest in the territory of the Republic of Uzbekistan in the following ways:

Participation in the share funds and other property of economic societies and companies, banks, insurance companies and other enterprises established jointly with legal and (or) physical persons of the Republic of Uzbekistan;

establishment and development of business associations and companies, banks, insurance companies and other enterprises that are wholly owned by foreign investors;

acquisition of property, shares and other securities;

inclusion of rights to intellectual property, including copyright, patents, trademarks, utility models, industrial designs, company names and know-how, as well as business reputation (goodwill);

concessions, including the acquisition of concessions for the exploration, development, mining or use of natural resources;

ownership of objects of trade and services, residential buildings together with the land plots on which they are located, as well as ownership and use of land (including lease use);

by obtaining the right to identify, search and extract minerals in the subsoil in accordance with production sharing agreements, etc. [2]

*Shares* are the most common type of securities and one of the key financial instruments for attracting foreign investment to the Republic of Uzbekistan. Joint-stock companies began to emerge after the independence of the Republic through the transformation of large state-owned enterprises into joint-stock companies. By the end of 1994, 26.1 thousand enterprises were transformed into joint stock companies. Their shares formed the basis of the stock market in the republic. As of January 1, 2004, there were more than 1 million shareholders in the republic - individuals who bought shares on the Republican Stock Exchange. [7]

In accordance with the Resolution of the President of the Republic of Uzbekistan dated August 1, 2018 "On measures to radically improve the investment climate in the Republic of Uzbekistan": currently, the minimum capital of joint stock companies is 400 million soums; the minimum amount of equity capital of



enterprises with foreign investments is 400 million soums, previously it was 600 million soums; the minimum share of a foreign investor in the authorized capital of an enterprise with foreign investment is 15% (previously 30%); a foreign founder can be a legal entity or an individual. [4]

*Certificates of deposit.* On July 6, 1992, the State Bank of the Republic of Uzbekistan approved the "Rules for the issuance of certificates of deposit and their circulation" for legal entities and individuals. Small batches of deposit certificates of some banks, such as Turon Bank, were put up for auction in the stock department of the Tashkent Stock Exchange. Currently, commercial banks are actively involved in the market of deposit certificates. The procedure for issuing certificates of deposit and savings is regulated only by the Central Bank of the Republic of Uzbekistan.

*Bonds* are another important element of the stock market of the Republic of Uzbekistan. In the bond market, corporate bonds occupy a leading position. The main issuers of corporate bonds are commercial banks. Until 2003, private companies, limited liability companies and open joint stock companies could be issuers of corporate bonds. Then the practice was stopped. To date, about 338 billion soums worth of bonds have been issued. [10]

*Government securities* were issued in 1992 for a period of 20 years and were fully liquidated after 22 years. In 1996, government short-term bonds were first issued. These securities were issued by the Ministry of Finance to cover the state budget deficit. Under the terms of the emission, the main investors were resident legal entities of the country.

No government bonds have been issued in Uzbekistan since 2011. The decision to issue government securities was made only in the event of a state budget deficit. Since 2005, the state budget has been running at a surplus. However, the state budget for 2019 was planned with a deficit of 4.5 trillion soums, or 1.1% of GDP. The budget deficit was planned to be covered by state treasury obligations in the amount of 3 trillion soums.

*Eurobonds.* The Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated January 16, 2019 "On measures to issue and place international bonds of the Republic of Uzbekistan" was adopted. In 2019, the Republic issued debut Eurobonds worth \$ 1 billion for 5 and 10 years. [11]

*Municipal securities.* To date, the issuance of municipal securities has not been observed in the history of the republic. However, by the Decree of the President of the Republic of Uzbekistan PF-5515 dated August 17, 2018, the issuance of bonds of the city of Tashkent was allowed to attract free funds of the population. Paragraph 17 of the decree states: "To authorize the mayor of Tashkent to attract free funds for profitable investment projects of the population through the issuance of securities in the form of bonds of the city of Tashkent or shares of newly established business companies". [5]

## CONCLUSION AND RECOMMENDATIONS

To conclude from the above, the main legal document regulating the stock market is the Law of the Republic of Uzbekistan "On the securities market". The securities listed in Article 3 of this law are identified, from which the purchase and sale of shares, corporate bonds, certificates of deposit can be seen. The issuers of the bonds are joint-stock companies, acocan commercial banks. Positive changes are expected (Eurobonds, municipal bonds) due to the measures taken to radically improve the stock market and the investment climate in the country.

Although the Securities Market of Uzbekistan is unstable, there is an upward trend. However, this trend is mainly driven by the growth of the primary unorganized securities market. It is well known from world practice that the general functioning and development of the securities market depends on the secondary trading of securities. The conclusion is that the development of the secondary securities market in our country is relevant. The volume of Securities Market's turnover has not reached 3% of the country's GDP, and its role in the economy is still low.

The issue of government securities was resumed as a source of covering the state budget deficit and financing large investment projects of the state. These securities are purchased by commercial banks at the Uzbek Republican Currency Exchange, and the yield of these securities is constantly updated throughout the year, as many securities are issued during the year, as many are placed.

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