



## PROBLEMS OF CAPITAL MARKET DEVELOPMENT AND WAYS OF IMPROVEMENT TODAY

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Article history:	Abstract:
<b>Received:</b> 10 <sup>th</sup> December 2022 <b>Accepted:</b> 10 <sup>h</sup> January 2023 <b>Published:</b> 14 <sup>th</sup> February 2023	In this article, the role of commercial banks in the development of the financial market, the extent to which commercial banks cover the financial market and the analysis of non-credit products and the problems in this regard are considered. Based on the results of the analysis, proposals were developed for the development of trading systems of the stock market in Uzbekistan.

**Keywords:** capital market, corporate bonds, primary and secondary shares, Eurobonds, capital market development agency, shares, "frontiers market", investments, stock exchange

### INTRODUCTION

The market plays the most important role in the development of the economy in any country. For the market to be sufficiently formed, it needs to be based not on political laws, but on the laws of the mutual market: the environment of fair competition and the price should be formed from supply and demand. The concept of the market is broad, and in the language of economists, it is understood as a place where the trade of things of material or immaterial nature is carried out [1,2]. A mechanism is formed based on the same laws in the capital market. A capital market is a stock market. That is, the relations of collecting idle funds, turning them into loan capital, and then distributing it among the participants of production processes (banks, enterprises, firms, as well as the country's population); it is a place where trading operations with securities, company shares and government bonds are carried out. As we can see, banks, enterprises and, of course, intermediaries serve as a mechanism for entering the capital market of funds, loans, and shares belonging to individuals and their trading process. It should be said that the main share in the gross domestic product (GDP) of many developed countries corresponds to the capital market. The share of the capital market in GDP in our country is only 1%. In developed countries, this indicator is around 30-60%. It can be seen that the financial market should gain significant importance in the country's market. In this situation, the governments are paying special attention to increasing the volume of foreign direct investments by creating all-round favourable conditions for business, in particular, ensuring the integrity of the property, sharply reducing the tax burden, liberalizing foreign economic activity, and providing relief to investors in terms of free disposal of profits. Because it is impossible to provide regularly growing needs with only national investments. On the other hand, sufficient conditions created for national investors serve to increase the interest of foreign investors as well. Also, as the first stage of reforms in this regard, based on the experience of world countries, by the Decree of the President of the Republic of Uzbekistan No. 5630 of January 14, 2019, an independent state body - Capital Market Development Agency was established, and its main tasks are to form the securities market. , the implementation of a unified state policy in the field of development, regulation and corporate governance is defined. In the Address of the President of the Republic of Uzbekistan Sh. Mirziyoyev to the Oliy Majlis on the most important priorities for 2019, it was noted that the development of financial markets, including the stock market, is one of our main goals in the new economic conditions [3,4,5].

### RESEARCH METHODOLOGY

The article uses methods of observation, abstract-logical thinking, systematic approach, and economic interpretation. In particular, with the help of a systematic approach, the analysis of the capital market problems is carried out by setting the tasks correctly and finding their solution, and economic interpretation in the research process. The state of development of the stock market is evaluated through the monitoring method and formed based on reliable sources through logical reasoning.

### ANALYSIS AND RESULTS

According to the Capital Market Development Agency, the total nominal value of shares issued today is more than 100 trillion soums, and only 1.5% of them are in free circulation. This is less than 1 per cent of GDP, compared to 188 per

cent in Singapore, 112 per cent in Malaysia, and 34 per cent in Russia. This situation shows that the capital market in Uzbekistan has great potential to qualitatively and quantitatively increase the mediating role between investments and savings in the country's economy. In particular, in 2019, with the support of the European Bank for Reconstruction and Development, the Asian Development Bank and several other international experts, a draft strategy for the development of the capital market of Uzbekistan in 2020-2025 was developed and discussed among the general public. One of the main tasks of this strategy is to increase the ratio of total securities in free circulation to GDP to at least 10-15% by the end of 2025. In this strategy, it is necessary to eliminate the factors that prevent the development of the stock market, to coordinate the laws and regulations governing it with the requirements of developing countries ("frontiers market"), to create an eco-system of the financial market, which includes brokers, pension funds, insurance companies, and banks. creation of a system requires the sufficient formation of many institutions based on world experience in attracting idle funds of the population to the stock market. In addition, to ensure full transparency of the financial results of all business entities in the country, to increase the level of literacy of entrepreneurs, and to teach the skills of attracting investors and owners by demonstrating their effectiveness [7,8,9].

Wide introduction of new mechanisms, such as full use of the stock market as an alternative source of financing investment projects, reducing the dependence of the economy on the banking sector and the participation of the state in the banking sector, attracting additional funds from hidden circulation to the economy, and ultimately improving the economy of Uzbekistan it is expected to solve important and urgent issues such as ensuring rapid growth. At the first plenary session of the Council of Foreign Investors under the President of Uzbekistan held on November 16, 2022, the issue of attracting foreign investors to our national economy was discussed in detail. In the speech of the President at the first plenary meeting of the Council of Foreign Investors, as in all areas, the work on the creation of a healthy competitive environment, the active involvement of foreign investors in the formation of an efficient stock market, the existing opportunities and the ways of their effective use were shown. . As noted at the plenary session, the development of private business, which is the driver of the modern economy, is inextricably linked with the development of the banking and financial sector. In this case, private business constantly strives to widely introduce innovations in order to maximize profits. For innovations, the banking and financial system should be able to offer mutually beneficial business financing options. Then we can expect further acceleration of the complex development of the real and financial sectors of the economy. The private sector is more effective than state participation. At the same time, the state share is high in the banking sector of our country. In this case, commercial banks are unable to achieve high economic efficiency through investment activity. According to the results of the 9th month of 2022, the total capital of the state-owned banks amounted to 60.3 trillion soums, and the net profit reached 3.9 trillion soums. As a result, the average return on capital of state-owned commercial banks for the three quarters of 2022 was 6.5 per cent. In private commercial banks, this figure was 20.3 per cent. According to the Decree of the President of the Republic of Uzbekistan No. PF-6207 of April 13, 2021, the target indicators for the development of the capital market have been determined (Table 1).

**Table 1. Target indicators to be achieved as a result of the implementation of the capital market development program in 2021-2023.**

Nº	Indicator name	Unit of measure	2020 (in fact)	(in The 2021 year)	The 2022 year	The 2023 year
1.	Market capitalization based on free float	trillion soums	1,9	4,9	14,5	45
2.	The total value of securities in free circulation	In per cent (relative to GDP)	0,3	0,7	1,9	5
3.	The total value of corporate bonds	trillion soums	0,16	0,75	1,88	3,94
		In per cent (relative to GDP)	0,03	0,1	0,3	0,5
4.	The number of population and business entities covered by the "Financial and Investment Literacy" program	person	–	5 000	20 000	40 000
5.	Number of investment accounts	deposit accounts active during the year	4 000	6 000	10 000	20 000

6.	Part of the projects within the framework of regional investment programs financed by issuing securities	in per cent (in relation to the value of the regional investment program)	-	1	3	5
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It can also be seen that the state cannot operate successfully in business in most cases. Therefore, the participation of private investors, especially foreign investors, is extremely important in this sector. The activity of national and foreign investors in the banking sector creates a healthy competitive environment in the sector, which, in turn, serves sustainable development. Because the activity of both the private sector and foreign investors in this area ensures the innovative development of commercial banks. Based on this, at the first plenary session of the Council of Foreign Investors, it was once again emphasized that the privatization of commercial banks with state participation is an urgent issue on the agenda. This can also be done by placing public shares in the national stock market. Only for this, it is necessary to increase the investment attractiveness of commercial banks. Increasing investment attractiveness is not a one-day task and a result that can be achieved in one day. At the same time, in the ongoing process of digital transformation, commercial banks need to quickly get rid of illiquid and non-profitable assets, and most importantly, engage in commercial activities. On the other hand, it must seek to maximize profits by expanding digital banking services through an electronic platform and reducing operating costs, ultimately shifting to paying regular dividends to shareholders based on above-inflation market returns. In this direction, in the development strategy of New Uzbekistan for 2022-2026, the priority goal of completing the transformation processes in commercial banks with a state share and releasing the private sector's share of bank assets to 60 per cent by the end of 2026 has been strengthened. The stock market is an important factor in the development of the banking sector. At the meeting of the Council of Foreign Investors, another important task - the formation of an efficient stock market - was raised by the head of our country. Strengthening the stock market will be important for the development of commercial banks in the future. Because the sharp competition between the credit and stock markets in the financing of the economy ensures the development of both sectors by striving for competitive advantage. From this, the national producer, the party in need of capital, will have the opportunity to attract cheap capital. Therefore, from the point of view of financing the economy, the banking system is also highly developed in the countries that have chosen the stock market model of the financial market. Or, on the contrary, it is possible to see that stock exchanges have developed as full competitors in countries that finance the economy through banking [8,9,10].

At the same time, high state participation in the economy in our country has a negative effect on the activity of issuers in the stock market. Only when entering the international financial market will the transformation of financial statements bring more results for the business. Therefore, in the simplified system, it is necessary to take into account these aspects and determine the necessary measures. The stock market has the advantage that foreign investors can directly invest in business entities in other countries without leaving their countries. Therefore, this market is an area with no limits in terms of investing, and at the same time, it offers great convenience. But the possibilities of implementing this practice through stock exchanges in our country are extremely limited. Because foreign and national investors have not yet been allowed to open brokerage accounts remotely and invest in joint-stock companies through the stock market. Shortly, a positive solution to this issue will be one of the important steps in achieving our goals in this regard.

Today, the global trend shows that hundreds of types of financial instruments are used in foreign stock exchanges. Ordinary and preferred shares and partial corporate bonds are placed on the Tashkent Stock Exchange. As a result of climate change in the world economy, from the point of view of global green development, in recent years special attention has been paid to issuing and placing green bonds and directing the capital involved in green projects. Based on these aspects, it was noted at the plenary meeting that it is necessary to accelerate the work on the "green" financing of the "green economy" in Uzbekistan.

In this regard, it is worth noting that the project of launching a solar power plant in the Beruniy district of Karakalpakstan in cooperation with the Saudi Arabian company "Acwa Power" and the fact that several commercial banks are offering "green" loans for the installation of solar panels in households. In our country, in addition to them, the issuance and placement of "green" bonds are important for the implementation of several projects related to infrastructure and the environment. Issuance of "green" bonds by both state and corporate issuers will serve to increase stock market instruments in the future.

The main problems and solutions of the industry:

First, an inefficient mechanism for issuing and selling securities. The total value of shares on the stock market is 25 trillion soums, which is less than 6% of GDP. For example, this figure is 188% in Singapore, 112% in Malaysia, and 34% in Russia. By the end of 2025, as a result of the implementation of the new stock market development strategy, this value should be brought to at least 10-15% in Uzbekistan;

Secondly, the industry is over-regulated (about 100 regulatory documents), and there are many restrictions. For example, banks should be more active in this segment, but we are prohibited from buying shares of other entities in the primary market. This problem is solved by revising the normative base;

Thirdly, due to the first two problems, there are few professional participants in the stock market. Today there are less than a hundred of them. Foreign exchange, brokers and banks come to the stock market of our country. A certain part of the assets of insurance companies will be sold. They allow our banks to purchase highly liquid securities in the primary market;

Fourthly, there are few qualified specialists - only 300, while thousands of people work in this field in developed countries. In cooperation with the capital market development agency and advanced foreign institutions, it provides training for personnel and training of students.

In addition, a task was given to strengthen the protection of the rights of investors and minority shareholders, improve the payment and collection of dividends, modernize the corporate management system, and transition to international financial reporting and international auditing standards.

In conclusion, it can be noted that the integrated development of the banking system and the stock market will ensure the growth of global competitiveness and the acceleration of economic development in the near future. In this process, increasing the activity of foreign investors will further increase efficiency.

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