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CAPITAL MARKET AS THE MAIN FACTOR OF ENHANCING INVESTMENT ACTIVITY IN THE REGION

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Abstract

This article discusses the influence of the capital market on investment activity in a specific region. The analysis is conducted considering the importance of financial stability and regional economic development. The article explores key aspects such as the influence of capital investment on the structure of economic growth, innovation activity, and the overall socio-economic potential of the region.

Keywords: capital market, investments, stock market, market capitalization, public offerings, stock market regulator.

Introduction

In recent years, the Republic of Uzbekistan has been undergoing significant changes in all spheres of societal activity, with particular attention being devoted to unlocking the economic potential of the region. It is important to note that the further development of the economy, its reform, and restructuring primarily depend on the activation of investment activities, optimization of the legislative framework, and the introduction of new tools to enhance investment attractiveness. The main source of ensuring regional prosperity is investments in the establishment and development of industries.

Research Methodology

The research methodology includes the analysis of statistical data, economic indicators, and the dynamics of capital market development in the examined region. The research findings enable conclusions to be drawn about the impact of the capital market on investment growth in key economic sectors, as well as the effectiveness of state support measures and capital investment regulation.

Data Analysis and Research Results

The capital market, being one of the mechanisms for mobilizing and redistributing resources necessary for effective investment processes, allows for optimizing the flow of funds to determine the contact point of interest between "suppliers" and "buyers" of investment resources.

The experience of developed countries shows that the widespread use of market mechanisms to stimulate investment activity through securities market mechanisms, flexible

regulation of state and private investments to achieve economic growth goals, and the formulation of programs for attracting domestic and foreign investments through the securities market enable a comprehensive approach to investment process development.

In theory, the capital market should be a key element of a country's financial system, representing an organized infrastructure where the buying and selling of securities such as stocks and bonds take place, as well as other operations related to attracting and utilizing long-term financial resources. Despite the measures taken by the government in Uzbekistan, banks remain the main institutions of the financial sector (the market capitalization of the securities market, based on freely circulating securities in 2021, amounted to 0.3% of the country's GDP), while the capital market offers significant opportunities for both investors and recipients of financial resources.

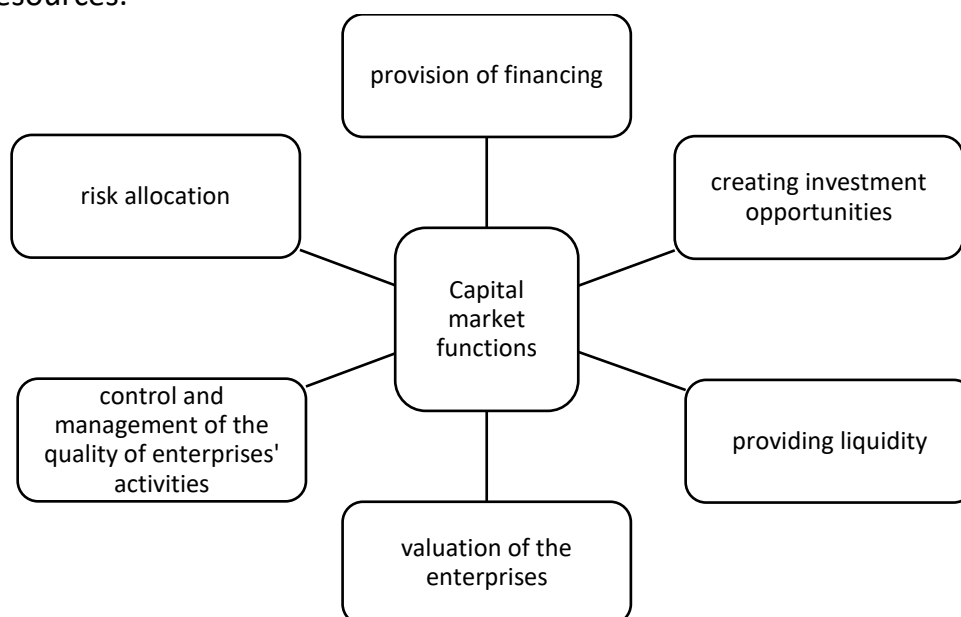


Figure 1. Functions of the Capital Market in Uzbekistan.

One of the main functions of the capital market is to provide financing. The issuance of securities into free circulation on the capital market can contribute to attracting additional financial resources for both private sector companies and government organizations and municipalities. Furthermore, being an open and accessible platform for buying and selling securities, the stock market allows not only institutional but also minority investors to invest.

Thanks to the fundamental principles of the stock market operation, such as transparency and public conduct of exchange trading, freedom to form prices on the exchange, voluntary conclusion of exchange transactions, equal conditions for participation in exchange trading for all exchange members, and ensuring the execution of concluded exchange transactions, the liquidity of securities is ensured, which contributes to the efficient use of capital.

The price of securities on the market reflects investors' expectations regarding the future development and profitability of the entity (enterprise, municipality, etc.). Serving as a guide in making investment decisions, it allows evaluating the efficiency of the entity. Thus, the capital market serves as an independent platform for determining the market value of companies

based on entirely market mechanisms. One of the most important functions of the capital market is also control management, which leads to transparency and improvement of corporate governance of enterprises. Certain requirements regarding reporting, disclosure of information and regular audit¹ are put forward to enterprises that place securities on open stock exchanges, which contributes to improving the management of companies and protecting consumer rights. This, in turn, has a direct impact on the reduction of shadow business in the region.

It is worth noting that the capital market also influences the improvement of the population's living standards. Being an alternative way of increasing savings, the capital market allows diversifying the portfolio of savings and distributing the risks associated with investments. Investors can choose different securities with varying levels of risk and return according to their investment goals and risk profile.

Currently, the Republican Stock Exchange "Tashkent" offers various types of securities, such as shares of joint-stock companies (the majority of which have more than 50% government or quasi-government ownership), bonds of joint-stock companies and limited liability companies. Government bonds are traded on the currency exchange and are only available to banks and market professional participants representing the interests of institutional investors.

One of the important steps towards enhancing the investment attractiveness of the Republic was the adoption of the Presidential Decree of the Republic of Uzbekistan dated April 13, 2021, No. UP-6207 "On Measures for Further Development of the Capital Market," which approved the Capital Market Development Program for 2021-2023. Among the target indicators achieved through the implementation of this program is the increase of the securities market capitalization to 45 trillion Uzbek som (for comparison, in 2020 this indicator was 1.9 trillion som), bringing the free float (securities in free circulation) to 5% of GDP (in 2020, this indicator was 0.3%), and financing a portion of projects, namely 5% in relation to the value of the territorial investment program, by issuing securities within the framework of territorial programs. Additionally, the program includes conducting public offerings of shares of 15 major companies in the country, including 5 banks, metallurgical plants, oil and gas enterprises, and others, through the stock exchange.

Thus, reducing the government's stake in the equity capital of major enterprises through public offerings, rather than selling to a single group of investors, provides the opportunity to attract both foreign and local investors, including minority ones. This, in turn, contributes to enhancing trust in the securities market among the population and will have a significant effect on activating and expanding the market.

It is also worth noting that since 2018, the country has conducted four public offerings:

✓ IPO of AO "Quartz" in 2018, 54% of the total issued shares were sold, totalling 7.5 billion Uzbekistani som.

✓ SPO of AO "KMZ" in 2018, attracted 2.34 billion som, the number of applications exceeded the offered volume of shares by 26.14%.

✓ SPO of AO "Quartz" in 2019, attracted 15.8 billion som, the number of applications exceeded the offered volume of shares by 1.4%.

✓ IPO of AO "Jizzakh Plastics" in 2020, attracted 1.35 billion som, accounting for 34.87% of the issued volume of shares.

After these initial public offerings, by the end of 2018, the number of investors in the market increased by more than 3000 depositors, the number of transactions on the stock exchange increased by 5.35 times, and the exchange turnover volume increased by 2.3 times compared to the previous year.

Thus, public offerings significantly contributed to the dynamic development of the stock market in Uzbekistan. Increased interest from investors, growth in trading operations and turnover, as well as the increase in the number of depositors, indicate the strengthening role of the capital market in the national economy. However, it should also be noted that successes in this sphere require not only effective implementation of public offerings but also stable development of the institutional and infrastructural components of the market, as well as support from regulatory authorities.

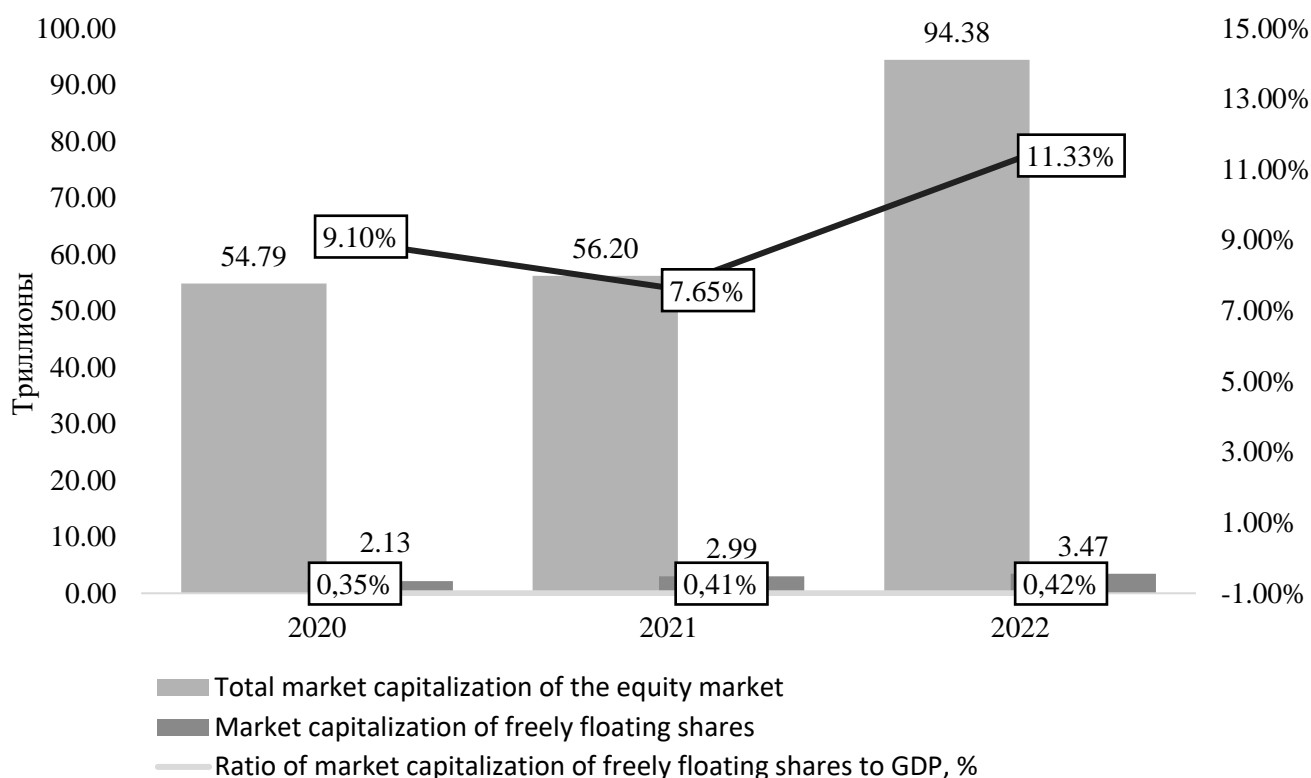


Figure 2. Comparison of the total market capitalization of the equity market with the market capitalization adjusted for free-float shares from 2020 to 2022, trillion Uzbekistani som.

During the period from 2020 to 2022, the total market capitalization of the equity market increased from 54.79 trillion Uzbek som to 94.38 trillion Uzbek som. This growth amounted to 72.34%, indicating a significant increase in the value of companies listed in the stock market. The market capitalization of freely floating shares also demonstrated a substantial growth during this period, rising from 2.13 trillion Uzbek som in 2020 to 3.46 trillion Uzbek som in 2022.

This growth equalled 62.91%, indicating an increase in the value of shares available for free trading on the market.

The ratio of the total market capitalization of the equity market to the country's GDP illustrates what portion of the companies' value relates to the overall economy. This ratio increased from 9.10% in 2020 to 11.33% in 2022, highlighting the growing significance of the stock market in the context of the national economy. The ratio of the market capitalization of freely floating shares to GDP also increased over the analyzed period, from 0.35% in 2020 to 0.42% in 2022. This may indicate a broader share of companies with publicly traded shares, which could contribute to increased market liquidity.

The overall trend indicates a rise in the market capitalization of the equity market and its importance for the country's economy. However, it is also necessary to analyze other factors, such as share trading dynamics, the degree of market diversity, regulatory influence, and other aspects, to more comprehensively assess the impact of the capital market on economic development.

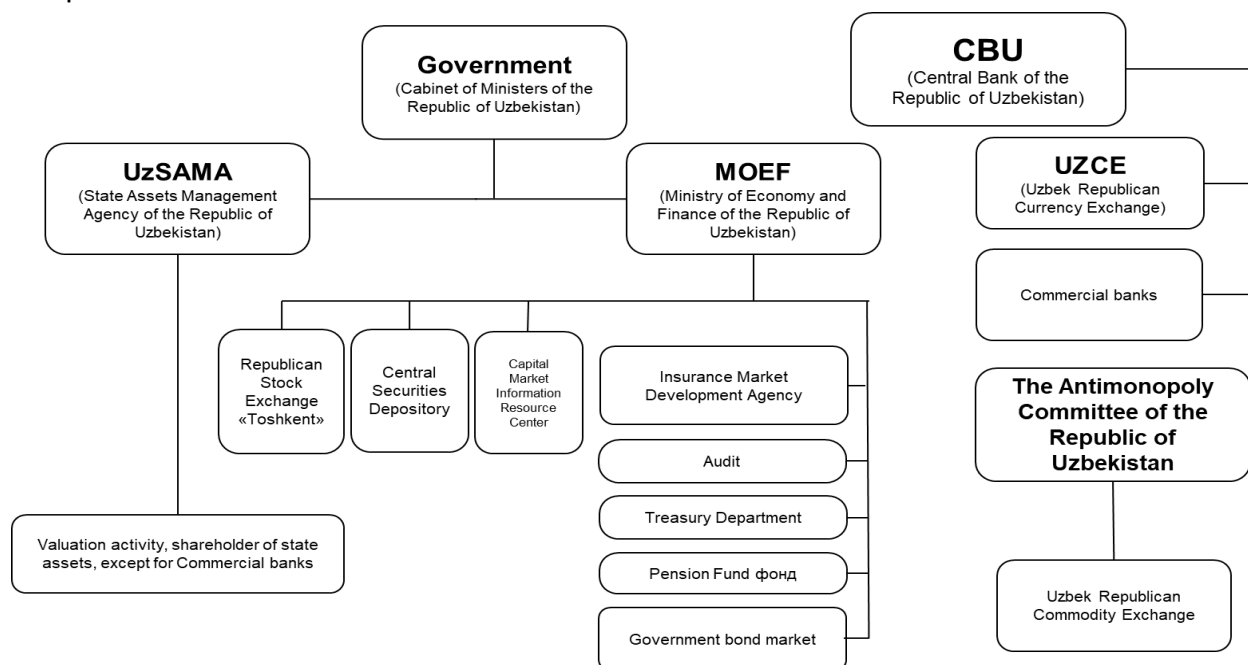


Figure 3. Regulatory Infrastructure of the Capital Market.

Institutional features regulating the activities of stock markets exert a significant impact on their development and attractiveness for investors. In this context, the role of the regulator is a crucial factor influencing the investment climate of the region.

The interconnection between the regulator and various types of stock operations on the Republic Stock Exchange "Tashkent" is pivotal in shaping the investment portfolio in the regions. The fact that the department of the Ministry of Finance and Economy functions as the regulator of this exchange impacts the dynamics of financial instruments.

Interestingly, the commodity exchange in Uzbekistan is evolving into a platform for trading in futures and options. This reflects investors' drive towards risk diversification and the creation of more sophisticated financial instruments. Simultaneously, the emphasis on government bonds on the currency exchange underscores the importance of managing currency risks within the investment strategy.

The unsatisfactory level of capital market development in the regions might take place from low awareness and preparedness of potential investors, as well as limited investment infrastructure in these areas. The low activity could also be related to uncertainties in legislative and tax regulations.

Developing the capital market in the regions requires not only support from regulators and governmental bodies but also efforts to enhance financial literacy, broaden access to information about financial instruments, and stimulate the creation of investment instruments tailored to regional needs.

The regular rotation of regulators in the stock exchange, occurring almost every year for the past four years, constitutes a significant element of instability in the institutional structure of this market. Despite positive transaction volume dynamics in the stock market, there has been a slowdown or even regression in the development of institutional and infrastructural aspects of the capital market. This phenomenon, where despite increased transaction volumes, institutional and infrastructural components of the market are not improving and sometimes even deteriorating, can be characterized as a "reversion" in the stock market industry. Insufficient stability and consistency in regulation, especially with such a high frequency of regulator changes, can substantially affect investors' trust in this market, creating uncertainty regarding future rules and the investment climate.

Conclusion

It is also important to note that institutional changes in the market structure can impact the formulation of long-term investment strategies. Final investors and institutional participants, considering the stock market as a portfolio-building tool, rely on the stability and reliability of the regulatory platform.

It is essential for achieve sustainable development of the capital market to ensure stability in the regulatory environment, minimize the frequency of regulator changes, and maintain continuity in the institutional and infrastructural support of this market. This will create a predictable environment for investors and foster long-term growth and development of the capital market.

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