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ANALYSIS OF THE PRACTICE OF ATTRACTING FOREIGN INVESTMENTS THROUGH THE FUND MARKET

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Abstract

The article examines the meaning of the stock market and the definitions of local economists. Also, the practice of attracting foreign investments through the stock market has been analyzed. The dynamics of investments in securities and the composition of investors investing in sovereign Eurobonds of Uzbekistan were studied. The volume of investments in the US stock market was analyzed. Proposals and recommendations for attracting foreign investments through the stock market have been developed.

Keywords Stock market, sovereign Eurobonds, foreign investment, financial resources, portfolio investment, securities.

INTRODUCTION

Today's world economy is based on global competition. No national economy can develop through self-sufficiency. Therefore, today there is fierce competition not only for goods and services, but also for attracting foreign investments. In Uzbekistan, "In order to increase financial resources in the economy, the tasks of increasing the turnover of the stock market from 200 million US dollars to 7 billion US dollars in the next 5 years" [1]. As a result of the economic reforms initiated in our country, attention has been paid to the effective use of the capital market to reduce state intervention in the economy by improving the investment environment and thereby attracting foreign investments to all sectors of the economy.

ANALYSIS OF LITERATURE ON THE SUBJECT. One of the local scientists, U. Kholikov, studied the

issues of attracting investments, especially direct foreign investments, through the stock market in Uzbekistan [2]. Sh. Sultanov stated that "With the help of the stock market, the mobility of capital (industrial enterprises and bank capital) is increased, it allows to quickly attract funds, including personal savings of households, to various sectors of the economy for investment" [3]. Also, "The main indicator of increasing the competitiveness of the stock market of our republic is the level of development of the secondary market. Commercial banks, investors and various business entities, especially large companies, play an important role in the development of this market" [4]. H. Khudoykulov drew attention to the high share of shares of commercial banks due to the low liquidity of shares of joint-stock companies in other sectors in the stock market of Uzbekistan [5].

RESEARCH METHODOLOGY. Logical and structural analysis, grouping, statistical analysis, comparison, and factor analysis methods were used in the article.

ANALYSIS AND DISCUSSION OF RESULTS

Decisions consisting of radical changes are needed to revive the national stock market and increase the investment potential. In order to eliminate the inconsistent and mutually exclusive situations observed in the documents adopted so far, it is desirable to develop the concept of the development of the stock market of a strategic nature. Today, the stock market is absolutely not a competitor to the credit market of banks. Therefore, it is time to develop a special program to increase the competitiveness of the stock market, aimed at creating a mechanism that provides the opportunity to attract funds not only through bank loans, but also through the issuance of securities in the financing of enterprises. Another issue is explained by the weak level of the stock market in the regions.

According to the 2022 data of the stock exchange,

the number of issuers, transactions and securities and the volume of transactions are in the first place in our capital and Tashkent region, and the indicators in this regard are low in the rest of the regions. In some regions, there is a shortage of investment intermediaries. All this shows that there is a need to implement regional programs for the development of the stock market. In addition, the ineffectiveness of the system of disclosure of information about the stock market is an obstacle to the development of this market.

According to the analysis, we can say that the volume of portfolio investments involved for 4 years amounted to 10.2 million US dollars. Another noteworthy point is that investments in the stock market do not reach even 1% of GDP. In most countries of the world, the stock market makes up a large part of the GDP. For this reason, in recent years, this issue has been discussed at meetings led by the head of our state, relevant decisions have been made, and a number of urgent tasks have been assigned. The main thing is that the joint campaign is aimed at developing the capital market, accelerating privatization and achieving transparency of these processes based on the requirements of the goals set ahead.

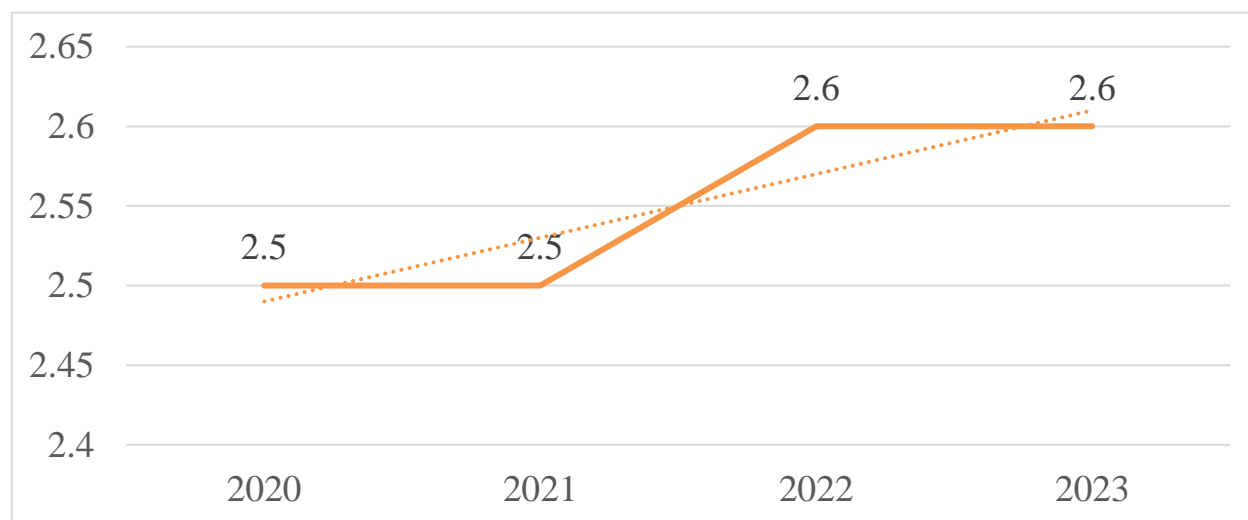


Figure 1. Portfolio investments in the stock market in 2020-2023 million US dollars [6]

Investments in securities increased sharply mainly in 2021, from 6.7 trillion soums to 16.3 trillion soums. This was mainly achieved through investments in Central Bank bonds and other debt securities.

Table 1

Dynamics of investments in securities, billion soums [7]

Securities and investments in them	2018	2019	2020	2021	2022
Government bonds	332,7	1 201,1	3 648,5	3 978,0	11 691,6
Bonds and other debt securities of the Central Bank	0,0	0,0	2 973,3	12 154,8	14 865,5
Securities of state-owned enterprises	3,1	8,1	0,1	5,9	23,0
Eurobonds	0,0	0,0	2,1	56,4	352,6
Securities of enterprises	71,6	76,1	77,8	90,1	114,6
Other securities	0,5	49,4	0,0	6,0	20,9
Total securities and investments in them	407,9	1 334,6	6 701,8	16 291,1	27 068,2

For the first time in the history of Uzbekistan, the sovereign Eurobond, which is considered a capital-attracting instrument in the modern financial market, was placed on the London Stock Exchange on November 19, 2020 in the national currency - soums - in the amount of 2 trillion soums [8].

Table 2**Structure of investors investing in sovereign Eurobonds of Uzbekistan (by regions and sectors) [9]**

Composition of investors	5-year (in percent) 10-year (in percent)	5-year (in percent) 10-year (in percent)
Regions		
Great Britain	39	32
North American countries	23	31
European countries	32	27
Asian countries	6	10
Total	100	100
Sectors		
Management Funds	75	78
Insurance and pension funds	20	16
Banks	5	6
Total	100	100

Based on the volume of formed orders and analyzes of financial consultant-underwriters, the interest rates for bonds in dollars and soums were reduced to 3.875% and 14.75%, respectively, and according to the trading results, the volume and interest rates of international bonds were set as follows [10]:

10-year USD tranche: \$555 million with a 3.70% coupon (0.55% lower than the initial interest rate);

3-year Uzbek soums tranche: 2 trillion soums with

a 14.50% coupon (0.75% lower than the initial interest rate).

The success of the first Eurobonds in the world stock market became a real historical reality, along with the goal of ensuring the image of our country in the international arena and the confidence of investors, as well as the huge task of bringing a large amount of capital into the economy of our country.

Based on the priorities for the development of the capital market, the target indicators to be achieved

as a result of the implementation of the capital market development program in 2021-2023 have been determined. They consist of the following.

Table 3

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

№	Indicator name	Unit of measure	2020	2021	2022	2023
1.	Market capitalization based on free float	trillion soums	1,9	4,9	14,5	45
2.	Total value of securities in free circulation	In percent (relative to GDP)	0,3	0,7	1,9	5
3.	Total value of corporate bonds	trillion soums	0,16	0,75	1,88	3,94
		In percent (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 percent (in relation to the value of the regional investment program)	–	1	3	5

According to the target indicators, the market capitalization based on freely traded securities will be 1.9 trillion in 2020. if it was 4.9 trillion soums, in 2021 this indicator will be increased by 3 times, that is, 4.9 trillion. it was set to reach soums. Later, in 2022, this indicator will be 14.5 trillion. soums and it is planned to reach 45 trillion soums in 2023. Of course, as a result of our scientific research conducted in this regard, it is proposed to establish a normative requirement that the volume of free sale of shares issued by the issuer should not be less than 5% of the total number of issued shares when entering the stock market of the "Tashkent" Republican Stock Exchange into the "Standard" listing category. and as a result of the

implementation of this proposal in the "Tashkent Republican Stock Exchange Quotation Sheet" Regulations approved by the decision of the Supervisory Board of the Stock Exchange on July 9, 2020, the requirements of the "Standard" listing category were improved. The Stock Exchange has created opportunities to ensure the liquidity of shares of issuers of the "Standard" listing category. Through this proposal, the total value of freely traded securities provided for in "Target indicators to be achieved as a result of the implementation of the capital market development program in 2021-2023" will increase by 6 times in 2022 compared to 2020, and this indicator will be 1 compared to the volume of GDP. It is important to reach 9% and 5% in 2023.

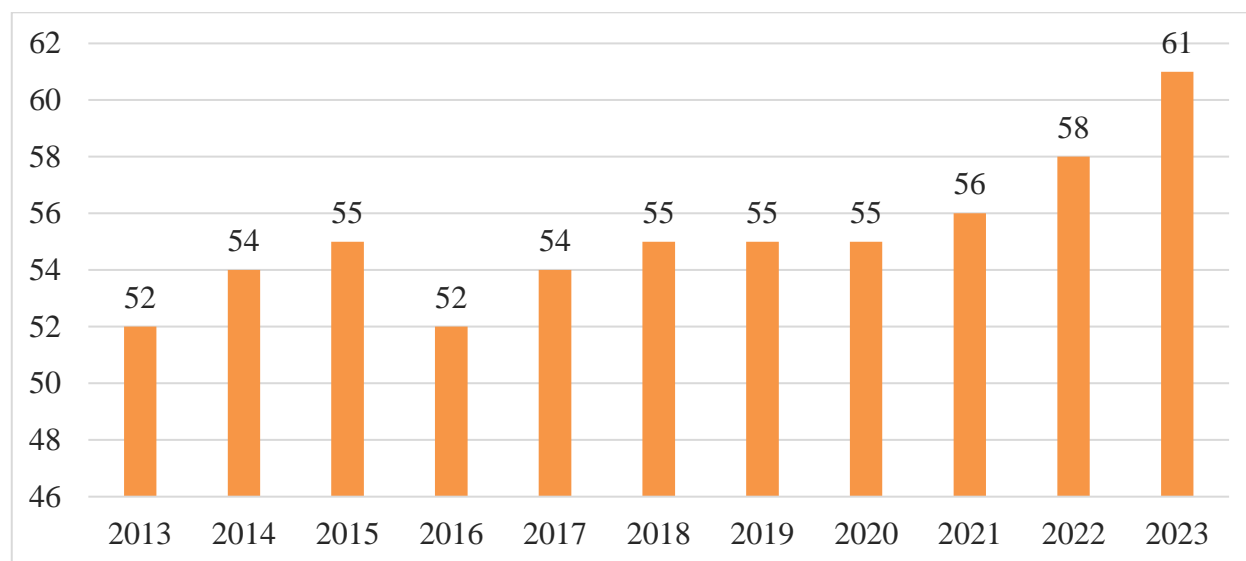


Figure 2. The percentage of investments in the US stock market in 2013-2023 [10]

So, now we will consider the share of investments in the stock market of the USA, which has the most developed stock markets in the world. In 2023, the investment in the US stock market amounted to 61 percent. It was considered one of the most attractive stock markets in the world. This figure has remained stable over the past few years. Decreasing trends were observed only in 2013 and 2016. The reason for this was the decrease as a result of trade wars between the USA and China [11].

Fundamentally improving the investment environment, deepening the process of selling state shares, reducing the state's participation in the economy, increasing the inviolability of private property, its role and importance, including the transition to modern approaches to state asset management, making the capital market one of the leading factors of economic development, making the country's economy stable is an important condition for development [12].

During the last period, efforts are being made to reform the securities market, in particular, to improve the legal system in this area, to strengthen the protection of investors' rights, to effectively regulate the capital market, and to establish cooperation with international financial institutions.

At the same time, today there are a number of

urgent problems and shortcomings that are waiting to be solved in connection with the further development of the capital market, the formation of a competitive environment and the promotion of increasing the liquidity of the stock market, including:

② there is no state strategic planning system in the field of capital market development;

② the share of freely traded securities in relation to the country's gross domestic product is low (0.3 percent);

② most of the transactions carried out on the stock market (more than 70 percent of the volumes on the stock exchange) are contributed by state-owned enterprises;

② the liquidity of the securities market is low, there is a need to develop the secondary market of state securities, there are not enough types of financial products put into practice, state stock packages are not sold on the basis of the "one share one lot" principle, and the securities of economic entities low interest in attracting funds in the market;

② efforts to attract large institutional investors with long-term financial resources to the capital market are slow;

② the market infrastructure is insufficiently provided with modern information and

communication systems, as well as the capabilities of local systems are used inefficiently in this area;

- regional capital market infrastructure is completely underdeveloped;
- there is a lack of highly qualified specialists in the field of the capital market, who can actively promote and implement measures to increase market capitalization;
- there are many legal documents that provide for disproportionate regulation of the industry and do not meet modern market requirements and international standards;
- corporate relations are not organized based on modern approaches.

These shortcomings hinder the use of the huge potential of the capital market, the proper provision of its capitalization and liquidity, the effective attraction of investments, the development of the economy and other spheres of state and community life [13].

CONCLUSIONS AND SUGGESTIONS

In conclusion, the following suggestions and recommendations were made for attracting foreign investments through the stock market: increase the competitiveness of the capital market and increase its capitalization to 45 trillion soums by the end of 2023, effective financing as an alternative to bank lending create a mechanism; increasing the accessibility of the capital market for all categories of investors by active integration with international financial markets, wide use of modern information and communication technologies and the use of advanced approaches that have been successfully tested abroad; by ensuring the harmonious functioning of the capital market and the development of all its segments, by the end of 2023, within the framework of republican and regional investment programs, the part of projects financed by issuing securities will reach 5%; introduction of advanced international practice in the field, creation of necessary conditions for active financing of investments aimed at development goals in the stock market by eliminating excessive barriers and restrictions; creating a legal framework that ensures the

integrity of the capital market regulation and the prevention of systemic risks, introducing international criteria and experiences; development of the capital market's staffing system that meets modern requirements, creating attractive conditions for attracting promising, including foreign, specialists; training and re-training of industry specialists for the capital market, systematic implementation of their qualification improvement; 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 [14].

If we introduce the following proposals to the stock market of our country, it would be even more developed. Including:

- ☐ By the end of 2023, the stock market of the Republic of Uzbekistan should be included in the list of "developing" stock markets of the world in the world stock market indices, including "Morgan Stanley Sarital International" (MSSI);
- ☐ 50 million dollars without state guarantee. it is necessary to attract funds and invest these funds in local corporate securities [15];
- ☐ In order to ensure the integration of the securities market into the international market, the Ministry of Finance should join the multilateral Memorandum of Understanding on consultations, cooperation and information exchange of the International Organization of Securities Commissions (IOSSO);
- ☐ It is necessary to reduce the state share in the authorized capital of the "Tashkent" Republican Stock Exchange to the amount of 25 percent + 1 share by issuing additional shares;
- ☐ It is necessary to create and implement the "Over The Sounter" (OTS) system, which ensures trading of securities not included in the stock exchange listing under the "Tashkent" Republican Stock Exchange;
- ☐ It is necessary to create a legal framework

for establishing trading of Exchange Trading Funds (ETFs), including gold-linked funds (Gold ETFs);

- It is necessary to involve the technical assistance of the Islamic Development Bank in order to finance the measures for the introduction of "Sukuk" bonds.

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