



ANALYSIS OF THE STATE OF THE CORPORATE BONDS MARKET IN UZBEKISTAN

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Abstract

Keywords: *corporate bond, joint stock company, stock market, investment, capital, coupon rate, global market, securities, public finance.*

Today, joint-stock companies are conducting many studies on the development of scientific proposals and practical recommendations aimed at effectively organizing the practice and circulation of corporate bonds. In the article, the economic nature and classification of corporate bonds, the directions of attracting foreign capital and the specific features of Eurobonds circulation, the current state of the corporate bond market in our republic, the analysis of the effectiveness of funds from the placement of international bonds, and the participation of the Republic of Uzbekistan in the global bond market.

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INTRODUCTION

The stock market has a great role in the modern economy. Increasing its position in the economy and its role in attracting investments, attracting the general public to stock trading, developing the primary and secondary market of securities, increasing the desire to buy bonds, turning bonds into real securities and ensuring that they become an important source of income. etc. are important factors in ensuring the development of the stock market of Uzbekistan. Ensuring continuity of financial supply in state finance management and corporate finance management serves the continuity of activity, targeted and effective use of financial resources ensures the growth of the efficiency of corporate structures. For this reason, in the Strategy of Actions on the five priority directions of the development of the Republic of Uzbekistan, "the development of the financial market of the Republic of Uzbekistan as an alternative source of capital attraction and placement of free funds of enterprises, financial institutions and the population" the issue of development of the concept of development in short-term and long-term perspective"¹ is indicated separately.

In our country, state and corporate structures finance their activities with a limited range of sources, mainly through their own funds, shares, bank loans, leasing. Financial provision through the circulation of corporate bonds is very narrow. The fact that they have

¹Action strategy for the five priority areas of development of the Republic of Uzbekistan in 2017-2021 from direction 3.1.



not organized the international share trading, the practice of public placement of shares on the international stock exchanges, and the fact that the foreign bond trading is relatively narrow, clearly shows the existence of problems in attracting capital. "It is necessary for our banks to enter the international financial markets and bring cheap and long-term resources. It is appropriate for the National Bank and the Mortgage Bank to issue their Eurobonds this year."².

Debt attraction by issuing bonds, effective organization of financial support in joint-stock companies are discussed by the world's leading scientific research centers, internationally recognized universities, international financial and economic organizations, international financial institutions, international auditing organizations, international rating agencies, transnational corporations. the fact that it is in constant attention also expresses the relevance of the subject of the master's thesis.

LITERATURE REVIEW ON THE TOPIC

A number of scientific works, pamphlets and articles have been published based on the scientific research on the issue of capital attraction through bonds. Jumladan, In particular, Frederic S. Mishkin, Stanley G. Eakins³, S. V. Bryukhovetskaya, B. B. Rubtsov⁴, among them, conducted research on the bond market in general and the bond market, which is considered an important component of it. From the point of view of corporate finance, it is possible to witness that the theoretical and practical aspects of corporate bond trading have been researched in the scientific works of Stephen A. Ross, Randolph W. Westerfield, Bradford D. Jordan⁵, I.YA.Lukasevich⁶. Y.M.Mirkin⁷, V.A.Galanov and A.I.Basov⁸ also studied the bond market as a component of the securities market.

The scientific developments of a number of foreign and national economists-scientists on theoretical and practical issues of the stock market were studied. In particular, the classification of stock market participants is based on the study of the educational literature of B.I. Alyoxin⁹, the factors affecting the movement of resources with the help of financial instruments in the stock market are based on the developments of Shokhazami¹⁰, the activity of intermediaries in the stock market is based on the scientific works of I.L. Butikov¹¹, the

² O'zbekiston Respublikasi Prezidenti Shavkat Mirziyoyevning Oliy Majlisga Murojaatnomasi. <https://uza.uz/oz/politics/zbekiston-respublikasi-prezidenti-shavkat-mirziyeevning-oliy-25-01-2020>

³ Frederic S. Mishkin, Stanley G. Eakins. Financial markets and institutions. 8th ed. USA: Pearson, 2018. – 812 P.

⁴ Финансовые рынки. / Брюховецкая С.В., под ред., Рубцов Б.Б., под ред., Чигринская А.П., Чернышова М.В., Сребник Б.В., Соловьев П.Ю., Ребельский Н.М., Пак М.В. – М.: КноРус, 2021. - 462 с. URL: <https://book.ru/book/936687> (дата обращения: 10.05.2020).

⁵ Stephen A. Ross, Randolph W. Westerfield, Bradford D. Jordan. Fundamentals of Corporate finance. – New York, 2010. – 708 p.

⁶ Лукаевич И.Я. Финансовый менеджмент в 2 ч. Часть 2. Инвестиционная и финансовая политика фирмы. – М.: Юрайт, 2020. — 304 с. URL: <https://ez.el.fa.ru:2428/bcode/453854> (дата обращения: 10.05.2020).

⁷ Миркин Я.М. Ценные бумаги и фондовый рынок. –М.: Экономика, 1995. – 289 с.

⁸ Галанов В.А., Басов А.И. Рынок ценных бумаг. –М.: "Юрайт", 2010. – 326 с.

⁹ Алехин, Б. И. Рынок ценных бумаг: учебник и практикум для вузов / Б.И. Алехин. – 2-е изд., испр. и доп. — М.: Издательство Юрайт, 2023. – 497 с

¹⁰ Шохазамий Ш.Ш. Финансовый рынок и ценные бумаги. Книга 1. Учебник. -Т.: Iqtisod-moliya, 2005.- с.13, 31-34.

¹¹ Бутиков И.Л. Проблемы формирования и функционирования рынка ценных бумаг в Узбекистана. БФА.: Диссертация на соискание ученой степени доктор экономического наук. Тошкент.: 2009.г. 416 стр.



stock markets of commercial banks issues of positive influence on the development and the need to increase their independence in order to activate their participation in the stock market were studied on the basis of the scientific works of R. Khozhimatov¹², on the basis of the conclusions regarding the modern trends of the development of the international capital market and the fact that the economy of developing countries is more dependent on the economy of industrialized countries.

Jacob Engwerda, Bas van Aarle, Tzanis Anevlavis analyze the impact of bonds on the debt dynamics of countries on the example of Belgium and the Netherlands. It also examines the activities of monetary and fiscal authorities in mitigating the impact of bonds on the financial market, paying particular attention to fiscal compliance¹³.

J. Tielens, B. van Aarle, J. Van Hovelar evaluated the influence of bonds on the dynamics of sovereign debt on the example of Portugal, Ireland and Greece, which are members of the European Union¹⁴.

Sh.A. Toshmatov, one of the economists of our country, analyzed the direction and efficiency of the funds received from the first sovereign international bonds of Uzbekistan to the economy¹⁵. N.R. Tursunova, in turn, studied the specific features of bond circulation from the point of view of attracting foreign capital¹⁶. I.L. Butikov studied the issues of financial support through securities¹⁷.

DISCUSSION AND RESULTS

Corporate bonds can be issued by open or closed subscription in global practice. Their main difference is that in the case of open subscription, placement of securities is among an unlimited number of investors, and with closed subscription - among limited investors known in advance. For many reasons, entrepreneurs rarely consider corporate bonds as a competitive method of debt financing. In addition, when issuing corporate bonds, the borrowing company itself determines the interest rate and the term of the issue. This gives the company more opportunities, increases debt flexibility. Corporate bonds are bonds issued by joint-stock companies, limited liability and additional liability companies. The implementation of investment activities in developing countries, first of all, implies the participation of subjects in the stock market. The participation of subjects in the stock market goes back to the issues of development of the securities market. Currently, there is no way to solve the issues related to the development of the stock market in Uzbekistan, first of all, without assessing the state of the development of the stock market, without identifying its specific features and trends, without carrying out relevant analysis.

A company that borrows money from the financial market can pre-select potential investors based on its goals. Opting for a closed subscription can save the bond issuer from public announcements and advertising campaigns, thereby reducing costs. The process of

¹² Hojimatov R.X. Fond bozorini rivojlantirish xususiyatlari va istiqbolli bank vositalari. "Iqtisodiyot va innovatsion texnologiyalar" ilmiy elektron jurnali. № 2, mart-aprel, 2019-yil.

¹³ Jacob Engwerda, Bas van Aarle, Tzanis Anevlavis. Debt stabilization games in a monetary union: What are the effects of introducing eurobonds? // Journal of Macroeconomics. Volume 59, March 2019. - Pages 78-102.

¹⁴ J. Tielens, B. van Aarle, J. Van Hove. Effects of Eurobonds: A stochastic sovereign debt sustainability analysis for Portugal, Ireland and Greece. // Journal of Macroeconomics. Volume 42, December 2014. – Pages 156-173.

¹⁵ Toshmatov Sh.A. Ўзбекистон халқаро облигацияларининг жаҳон молиявий бозорларида жойлаштирилиши: риск ва прогнозлар. <http://review.uz/>. (Мурожаат санаси 08.05.2020)

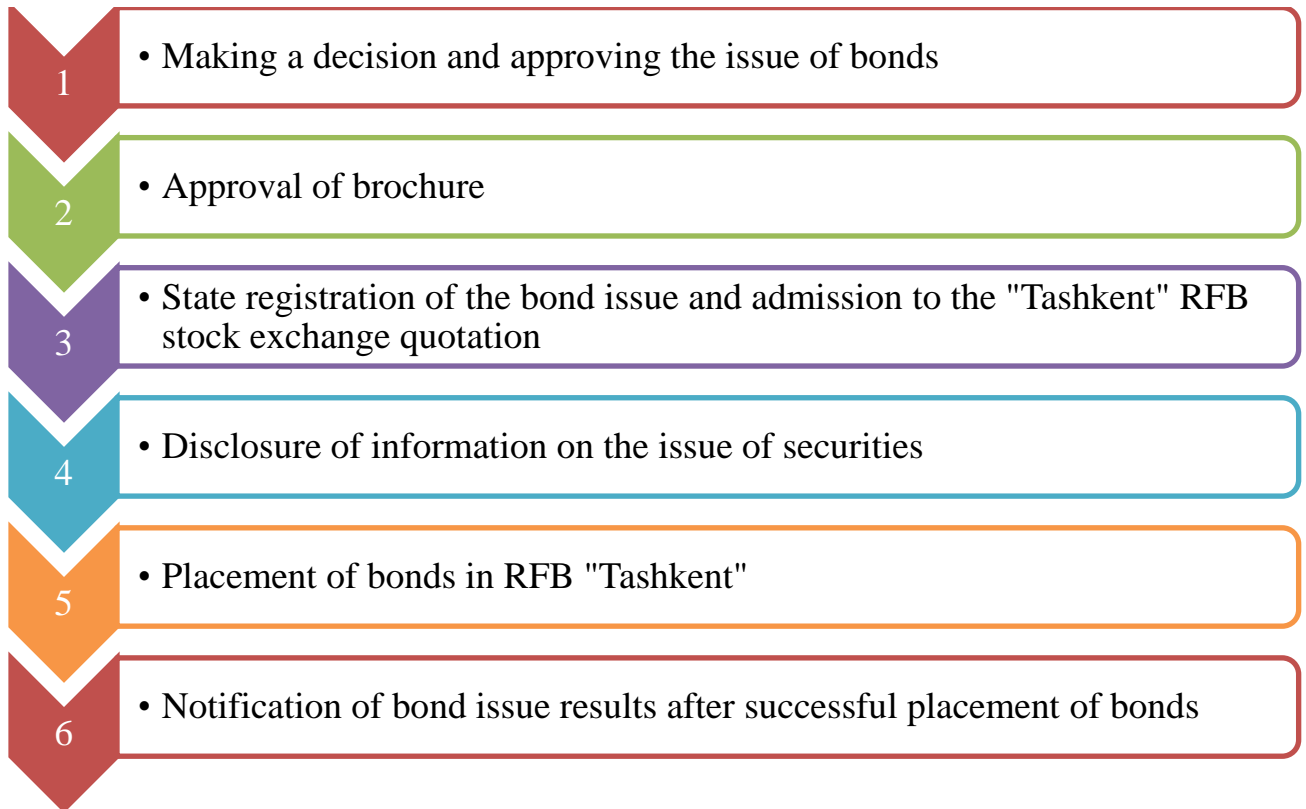
¹⁶ Турсунова Н.Р. Корпоратив молияни бошқаришда молиявий таъминотни самарали ташкил этиш йўллари. – Т.: "Иқтисод-молия", 2017. – 142 б.

¹⁷ Бутиков И.Л. Қимматли қоғозлар бозори. Дарслик. – Т.: "Консаудитинформ", 2001. – Б. 496 б.



issuing corporate bonds is different for open and closed subscriptions.

To issue bonds through open subscription, the company goes through 6 main steps:



To issue bonds through public subscription, the borrower needs audited financial statements and rating scores. In addition, the company must demonstrate positive indicators of profitability, solvency, financial stability and liquidity in the last financial year.

Corporate bonds are the main instrument of commercial credit and relationships, in which one type of enterprise is the debtor, and other enterprises or the population are the creditors.

Corporate bonds appeared in the process of lending to industrial enterprises, that is, when banks took debt obligations from them, divided into smaller amounts, against the given loans. Such a loan instead of industrial bonds is often cheaper than other types of bank loans. Industrial bonds usually paid much higher interest rates. Because interest payments on bonds can be excluded from the company's taxable profit, and dividends on shares are taxable.

Corporate bonds do not give their owners the right to participate in the management of an open joint-stock company and a commercial bank established in another organizational and legal form.

The processes of integration and globalization in the world economy set new goals and a number of tasks for corporate structures. At the same time as the organization of production and sale of goods, the issue of attracting foreign capital has become a priority. Based on the mentioned aspects, the task of localizing imported products and production of exportable products was already set before the joint stock companies operating in our country. Also, in order to improve the quality of corporate financial management, the



question of including the share of foreign investors in the authorized capital of joint-stock companies is one of the urgent issues.

To date, the following forms of attracting foreign capital are used in the management of corporate finance:

Organization and conduct of IPO practice

Attracting foreign bank loans

Issuance of securities (eurobonds) representing international debt relations

International leasing

We will focus on attracting foreign bank loans, sovereign and corporate Eurobonds and international transactions, which are debt forms of attracting foreign capital in direct state finance management and corporate finance management.

Judging from the experience of countries with developed financial markets, we can be sure that these growth indicators are not at all sufficient. As a result of the changes in the world economy, countries are rapidly using the financial market and developing it.

Decrees and decisions issued for the development of this sector in our country are also a clear example of this. Because if the financial market is not sufficiently developed, it will be difficult to compete with economically powerful countries.

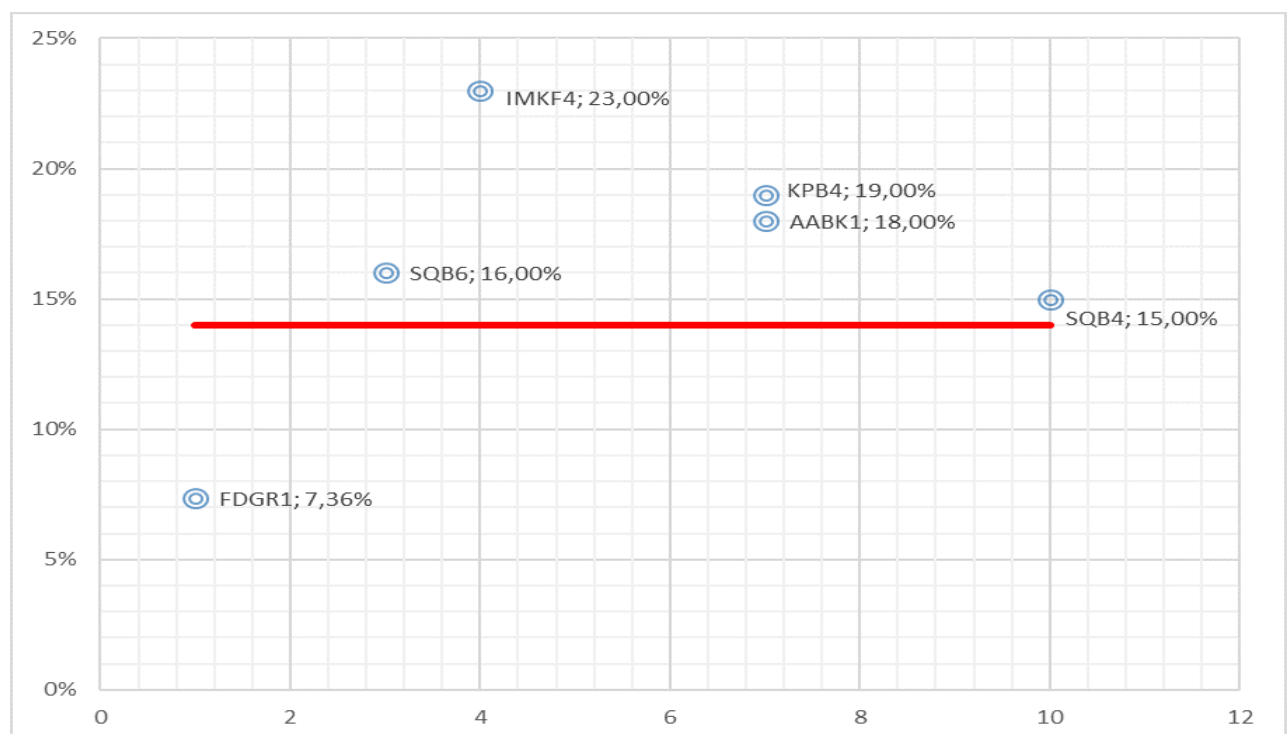


Fig 1. As of 15.03.2021, the status of corporate bonds in "Tashkent" RFB sales.¹⁸

According to the information in the above picture, there are 6 corporate bonds in "Tashkent" RFB trades, of which 4 are joint-stock commercial banks, and the interest rate on their bonds is linked to the main rate. 1 issuer - LLC developer company; the interest rate depends on the devaluation/revaluation rate of the Uzbek soum against the US dollar. Another issuer is a microcredit organization with an annual interest rate of 23%.

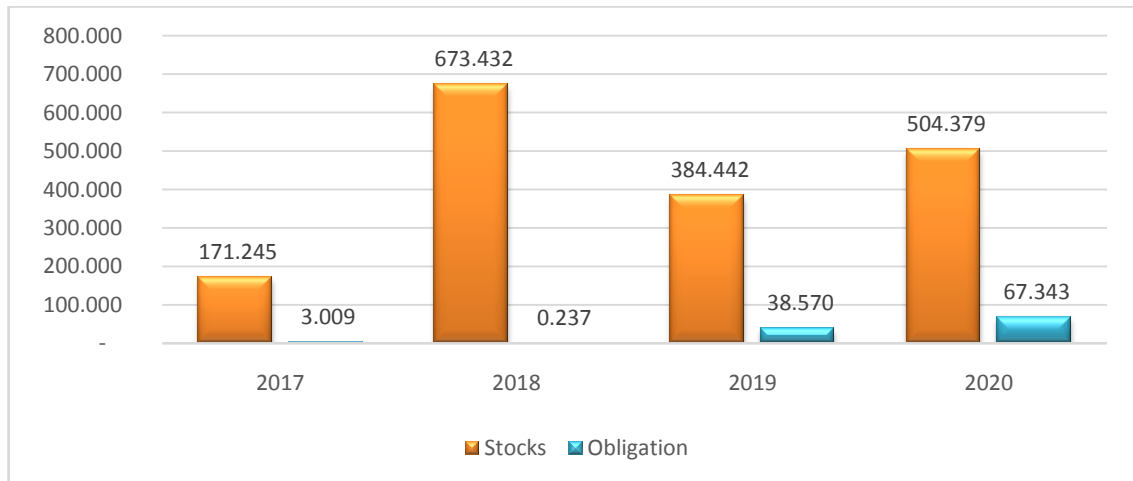
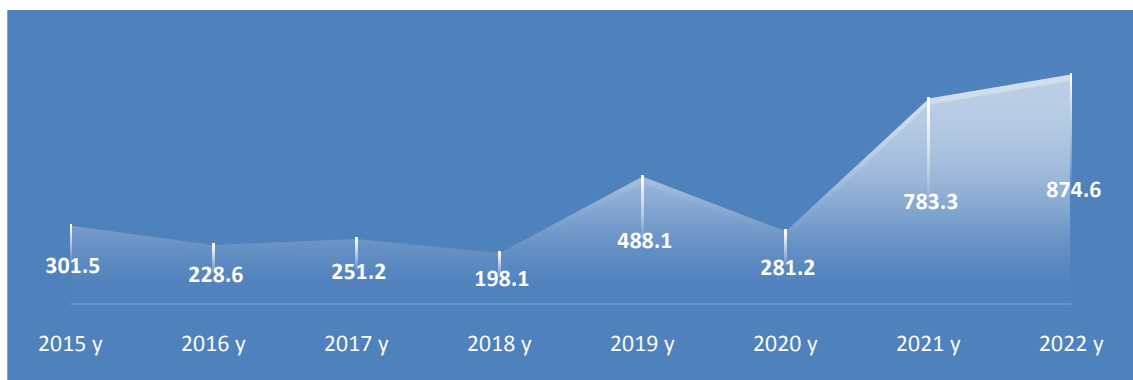


Fig 2. The volume of transactions with stocks and bonds in RFB "Tashkent".(billion soums)¹⁹

Using the data in the above figure, it can be analyzed that in the first two years of the indicated period, the ratio of bonds to stocks was very low. However, in the following years, this situation changed in a positive direction. In the last 4 years, the volume of bonds has increased more than 20 times. But this is not a sufficient level, as the experiences of the financial markets of foreign countries show.

Government and corporate bonds also play an important role in the stock market. A few banks mainly participate in the corporate bond market. At the end of 2019, the total volume of corporate bonds of six issuers (5 of them banks) was 488.1 billion. amounted to soum. These indicators cannot be compared with the total volume of securities issued.



¹⁸ Author's work using data from RFB "Tashkent".

¹⁹ Uzse.uz prepared by the author using site information.



Fig 3. Volume of corporate bonds on the stock market (in billion soums)

Government and corporate bonds also play an important role in the stock market. As of January 1, 2023, in the corporate bond market, 620,000 corporate bonds with a total volume of 874.6 billion soums of 28 issuers were issued, of which 504.63 billion soums were issued. Corporate bonds with a total amount of 255,600 units were issued by 21 LLCs. As of January 1, 2022, there are 365,600 corporate bonds with a total amount of 783.3 billion soums issued by 10 issuers. 41,400 of them with a total amount of 374.13 billion soums were issued by 5 LLCs. As of January 1, 2021, there are 472,800 corporate bonds with a total amount of 281.2 billion soums issued by 7 issuers. 415.7 thousand of them with a total amount of 172.24 billion soums were issued by 3 commercial banks. As of January 1, 2020, that is, at the end of 2019, the total volume of corporate bonds of six issuers (five of them banks) is 488.1 billion. amounted to soum.

The stock market is the main source of capital in developing countries, along with corporate bonds – equity capital and bank loans for many businesses. In addition, the bond market is the best indicator of the state of the economy, future business activity, and the level of future inflation, directly influencing the prices of everything from stocks and real estate to household goods. shows. Taking into account the experience of the rapidly developing corporate bond market in the mid-2000s, the tightening of requirements for issuers of this financial instrument had the opposite effect, they almost disappeared. Until recently, only JSCs and commercial banks could issue corporate bonds in Uzbekistan. In particular, in the practice of Uzbekistan, from 2020, LLCs were also given the opportunity to issue corporate bonds.

Table-1.

Status of existing bonds in "Tashkent" RFB. (in soum)

№	Name of the issuer	Placement date	Extinction term	Price	Number	Percent	Term
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1	JSC «Asia Alliance Bank»	15.07.2019	15.07.2026	1 mln	50 000	QMS + 4 %	Every quarter
2	JSC «Kapitalbank	13.05.2020	21.05.2027	1 mln	50 000	QMS + 5 %	Every quarter
3	MChJ «CHUST RIR MIKROKREDIT TASHKILOT»	07.04.2021	30.03.2024	1 mln	2 000	24,00%	Every quarter
4	MChJ «Artel Electronics»	10.06.2022	29.12.2023	100 mln	100	21,50%	Every quarter
5	MChJ «Artel Electronics»	10.06.2022	29.12.2023	100 mln	100	22,50%	Every quarter
6	AO "O'zagrolizing"	13.09.2022	10.03.2024	1 mln	50 000	23,00%	Every quarter
7	MChJ "Biznes finans mikromoliya tashkiloti"	16.09.2022	30.08.2025	1 mln	10 000	27,00%	Every quarter
8	AO "Imkon Finans mikromoliya tashkiloti"	10.04.2023	25.03.2026	1 mln	6 000	28,00%	Every quarter
9	MChJ «Hamkor invest lizing»	25.04.2023	06.05.2026	1 mln	17 500	18,00%	Every quarter

Using the information in the table above, it can be said that all bonds are denominated in national currency soums. Bonds with an average price of 1 million soums and coupon payments are made quarterly. "Artel Electronics" LLC issued a total of 200 bonds worth 100 million soums.

At the same time as large-scale economic reforms and structural changes aimed at ensuring the strength of macroeconomic stability in our country and fundamentally improving the investment environment of the republic for private, including foreign investments, integration of the country into international capital markets, attraction of additional sources of external financing are being carried out. and practical reforms have been implemented and initial successful results have been achieved regarding the wide use of the possibilities of expanding their volumes.

Initially, the range of coupons was set at 5.625 - 5.75% and 6%, but due to high demand, Uzbekistan revised the interest rates and lowered them to 4.75% and 5.375%. About 150 institutional investors received bids of \$3.8 billion to buy the bonds.

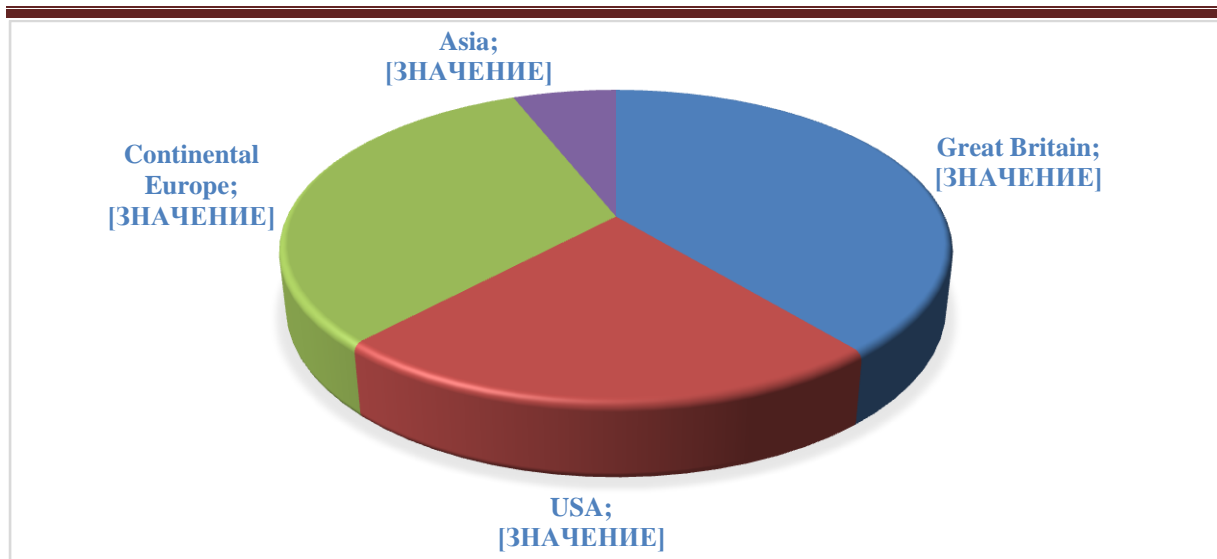


Fig 4. 5-year Eurobonds of Uzbekistan geographical composition of investors who have invested²⁰.

In terms of countries, the majority of purchases of 5-year and 10-year bonds were made by UK investors (39% and 32% respectively), while US investors bought 23% and 31% of the bonds. European investors accounted for 32% and 27%, and investors from Asia, the Middle East and North Africa accounted for 6% and 10%.

The majority of Eurobonds - 75% and 78% are management funds, 20% and 16% are insurance companies and pension funds, 5% and Banks bought 6% interest. The composition of investors for 5-year Eurobonds, geographically, as follows.

Geographically, the UK bought 29% of five-year Eurobonds and 32% of ten-year Eurobonds, the USA - 28% and 31%, Continental Europe 34% and 37%, the remaining 10% and 9% were received by Asian and Middle Eastern investors.

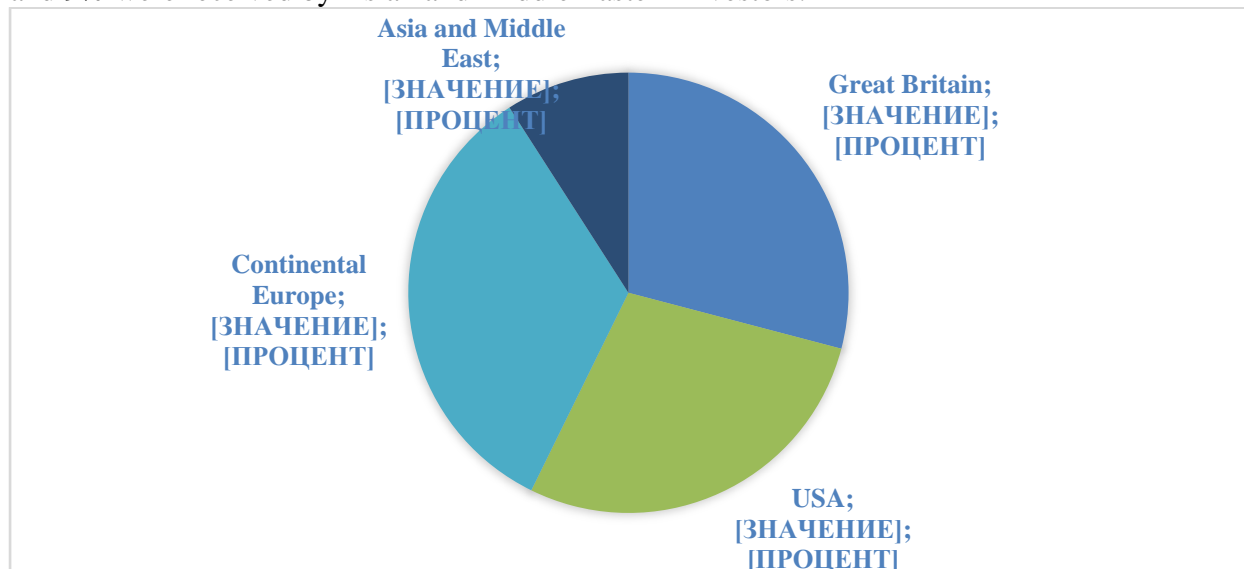


Fig 5. Geographical composition of investors who invested in 10-year Eurobonds

²⁰ Historical placement of Eurobond by Uzbekistan on the London Stock Exchange, 14.02.2019. <http://invest-in-uzbekistan.org/en/novosti-uzbekistana/istoricheskoe-razmeshhenie-uzbekistanom-evrobondov-na-londonskoj-birzhe/>

of Uzbekistan²¹.

For international bonds with a total of 1,000.0 million dollars placed, the one-year interest expenses paid in the first five years are equal to 56.63 million dollars, in the next five years, only interest payments are made on 10-year international bonds, the annual amount of 26 is 88 million dollars. The total amount of interest expenses paid on these international bonds for 10 years is 387.50 million dollars.

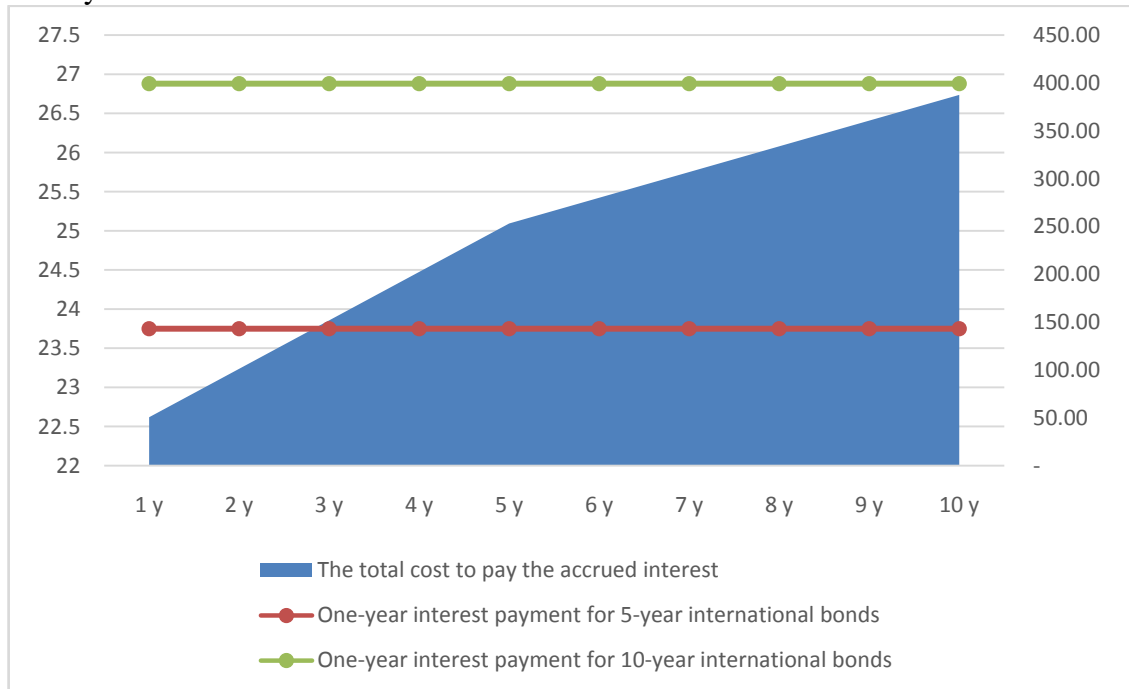


Fig 6. Dynamics of interest costs of Eurobonds²²

As a result of these historic Eurobond transactions, Uzbekistan achieved very successful deals in the Eurobond market, with strong investor support, re-pricing and settlement at an acceptable closing price, and ultimately these results It served as a basic benchmark, or in other words, a template, for future issuance of Eurobonds by state companies, corporations and other financial institutions of Uzbekistan. In particular, as an example of this, on November 25, 2019, in the London Stock Exchange, orders were received from more than 150 investors in the amount of 1.2 billion USD for international bonds in the amount of 300 million dollars issued by "Uzsanoatkurilishbank" ADB, and international bonds 5.75 it can be mentioned that the interest is placed with the coupon rate. It should be noted that these international bonds were placed among investors from Great Britain (30%), USA (16%), Europe (40%), Asia and the Middle East (14%).

CONCLUSION

The following conclusions, proposals and recommendations were developed based on our research on the effective organization of the practice of issuing and placing corporate bonds:

²¹ Historical placement of Eurobond by Uzbekistan on the London Stock Exchange, 14.02.2019. <http://invest-in-uzbekistan.org/en/novosti-uzbekistana/istoricheskoe-razmeshhenie-uzbekistanom-evrobondov-na-londonskoj-birzhe/>

²² <http://review.uz/sayt-ma'lumotlaridan-foydalanagan-holda-muallif-ishlanmasi>.



First, the need for financial resources of state and corporate issuers is also satisfied through the stock market. That is, both the state and joint-stock companies participate in the securities market as issuers. Bonds are put into circulation by the state and corporate entities as securities representing debt relationships and can be placed in the order of open and closed subscription.

Secondly, it is one of the most observed cases that the funds raised by the government as a result of the issuance and placement of bonds are directed to cover the state budget deficit. If capital is attracted by placing long-term bonds, it is appropriate to direct the funds to strategically important projects.

Thirdly, bonds issued by the state or corporate entities in foreign currency and placed in foreign countries are Eurobonds. Eurobonds are divided into sovereign and corporate Eurobonds.

Fourthly, to date, state and corporate structures prioritize attracting cheap financial resources from the international financial market by issuing securities representing international debt relations. But in this case, different aspects are noticeable in the capital assessment according to the sovereign or corporate credit rating.

Fifth, during the activities of corporate issuers, issuance of shares to form authorized capital, issuance of additional shares to increase authorized capital, issuance of corporate bonds, issuance of corporate Eurobonds, and international public placement of shares are carried out on the basis of mutual sequence. In this case, the next issue is successfully implemented when each securities issue establishes mutually beneficial relations with the owners of securities and satisfies the investor's interest.

Sixth, in the stock market of any country, the state is the most reliable issuer, and state bonds determine the break-even point. In our country, the main participants (buyers) in the market of government bonds are state and commercial banks. We are required to ensure the liquidity of our country's public securities market and its openness to all types of investors, and this in turn paves the way for other successes to a certain extent.

Seventh, the development of the national capital market will serve to increase the credit rating of the sovereign, commercial banks and other joint-stock companies. This, in turn, serves to sharply decrease the interest rates of sovereign bonds and corporate bonds in the international financial market.

Eighth, regardless of whether it is a sovereign or corporate bond, the interest rate on the bond will be low if the project to which the funds are directed is clearly and prospectively evaluated. From this point of view, state and corporate issuers should pay special attention to this aspect in the future.

Ninthly, the allocation of the funds raised for the placement of the first sovereign Eurobonds to commercial banks is not of strategic importance and serves only to cover the expenses related to the placement and interest payments. Therefore, the placement of Eurobonds on the basis of specific projects in the future will also ensure a decrease in the interest rate.

Tenth, it is necessary to disclose the capital price of Eurobonds so that placement of sovereign or corporate Eurobonds serves as a benchmark for other issuers. The main direction of development is the development of new generation information systems with more powerful functionality designed to increase the efficiency of all stock markets in the world.



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