

## Attracting Portfolio Investments to the Economy of Uzbekistan

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**Abstract:** The paper discusses the issues of attracting portfolio investments in the economy of Uzbekistan, the shortcomings of the stock market, and also gives recommendations.

**Key words:** stock market, securities market, portfolio investments, competition, economics, bank credit

The process of reforming the economy of Uzbekistan is largely associated with the growing role of investment. In this regard, the role and importance of portfolio investments in the economy of Uzbekistan is caused by the objective need to increase the scale of their attraction, especially foreign investors for the restructuring, renovation and development of enterprises created in joint-stock form.

The most significant role of portfolio investments is to replenish the equity capital of enterprises for the purpose of long-term development by placing shares among portfolio investors. "Economic growth will be ensured primarily through the creation of competitive production chains and increased investment for these purposes" [1]

### Analysis of literature on the topic:

Currently, portfolio investments are a good source of financing for companies, and raising funds through shares means relatively cheap financing, since the payment of dividends, like the growth of the share price, is not guaranteed by the company itself, while borrowed funds from banks are expensive. Securities are no longer just fictitious capital, and with proper organization of their market, they can serve as the most powerful financial lever that can bring the economy to a new, much higher level of development. Kostyunina G.M. portfolio investments are viewed as investments that do not give the foreign investor control. They are also called "hot money" or speculative capital due to the potential risk of rapid outflows due to differences in interest rates between countries. A.A. Kulanov in his article indicates that portfolio investments are operations, the purpose of which is to create a certain combination (portfolio) of various securities, incl. derivatives, involving in the process intermediaries, both financial and institutional [2]. Igor Butikov, Director of the Research Center of the State Competition Committee of the Republic of Uzbekistan, believes that it is through the mechanisms and instruments of the securities market that the national economies of developed countries attract a significant part of the resources for their development. [3]

**Research methodology.** The work uses an abstract method, as well as mathematical and statistical methods.

**Analysis and results:** In world practice, there are three main forms of investment:

- real (capital-forming) investments;

- portfolio investments (in securities);
- investments in intangible assets.

**Portfolio investments** are investments in the purchase of securities of the state, enterprises, banks, investment funds, insurance and other companies. In this case, investors increase their net production, but financial capital, receiving income from the ownership of securities. At the same time, the real investments of funds spent on the purchase of securities are made by enterprises and organizations that issue these securities.

It is quite interesting to analyze data on (foreign) portfolio investment in Uzbekistan (provided since 2016). They began to gain importance only in 2019, with the issue of Eurobonds, reaching USD 29.2 million and in 2020 USD 32.25 million. Compared to just over \$ 2M in 2016, \$ 3.149M in 2017 and \$ 13M in 2018). [4]

Uzbekistan's planned large-scale privatization program and the issuance of sovereign bonds are expected to boost portfolio inflows in the coming years as foreign investors acquire equity securities, including stakes, stocks and outright purchases of stakes on local stock exchanges.

#### Attracted portfolio investments in Uzbekistan 2013-2020 [4]

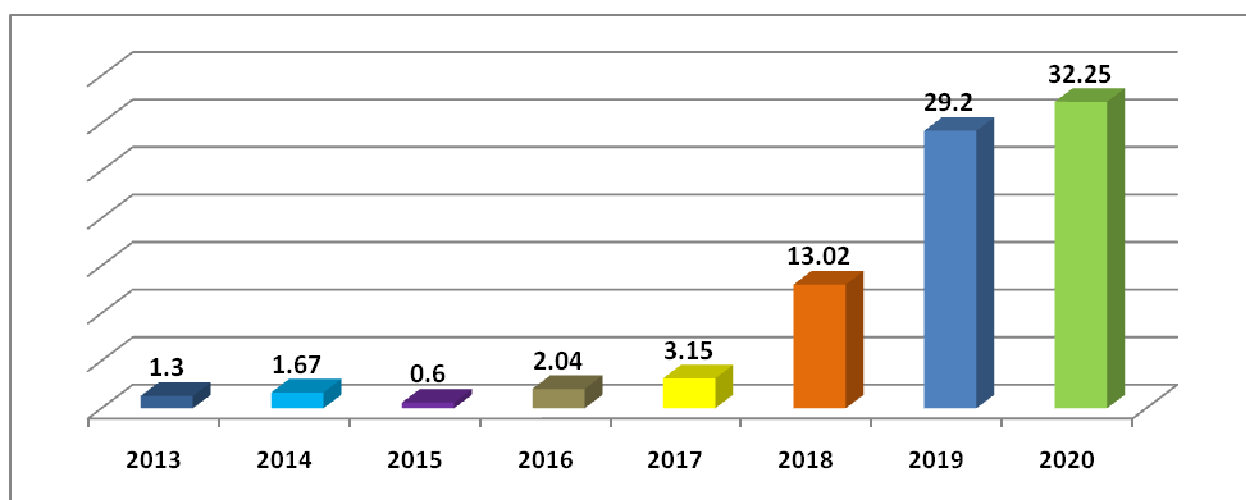


Diagram 1

Further development of the financial market will be vital in helping the country mitigate the potentially large fluctuations in capital flows and the economic shocks they bring. A solid legal and regulatory framework is essential to these efforts. Building gold and foreign exchange reserves and mitigating shocks can help insulate the economy from the impact of volatility in capital flows [6].

As you know, since 2019, foreign companies trading in securities have been allowed to open accounts in national and foreign currencies, which served as an important fact of the inflow of portfolio investments into the national economy.

It must be admitted that for a long time certain issues in the field of doing business remained unresolved. For example, currency conversion, free repatriation of profits, attracting international financial institutions, etc. The inability to repatriate profits from the sale of shares for many years was a significant obstacle for most investors, although there was a guarantee from our legislation in such laws as "On investment activities", "On currency control ", in fact, banks did not carry out such an operation until 2019. All of the above factors, in turn, had a serious impact on the investment attractiveness of the country. Despite extensive reforms in the field of investment, the

stock market still remains undeveloped, this was due to the fact that the state, since independence, paid more attention to the banking sector as a source of financing, which led to a "stagnation" in the securities market.

In accordance with the Decree of the President of the Republic of Uzbekistan "On measures for the further development of the capital market" (2021), the main directions for the development of the capital market were determined:

increasing competitiveness and bringing capital market capitalization to 45 trillion by the end of 2023, creating an effective financing mechanism, alternative to bank lending;

increasing the accessibility of the capital market for all categories of investors through active integration with international financial markets, widespread use of modern information and communication technologies and the use of advanced approaches successfully tested abroad;

bringing to 5 percent by the end of 2023 a part of projects financed by issuing securities within the framework of republican and regional investment programs, by ensuring the harmonious functioning and development of all segments of the capital market [7]

### **Conclusion and suggestions:**

Based on the foregoing, it is possible to single out the problems that require a radical solution. In particular:

- the absolute non-competitiveness of the stock market in the financial market and the monopoly of the credit market (bank credit). In foreign countries, there is competition between the securities market and the market for bank loans, which is the main driver of the development of financial markets. Internal competition in financial markets forces banks to lower interest rates on loans, establish more flexible conditions for issuing loans, and issuers of securities to issue them so that portfolio investors feel the advantages of investing in securities rather than in banks. There is practically no such competition in Uzbekistan.

- the system of disclosing information on the securities market is not used sufficiently. It is necessary to initiate the creation and activation of information dissemination agencies (including ratings, indices, etc.), which should supplement all information on quotations with data from fundamental and technical analysis, comments and forecasts of specialists, experts and consultants received from issuers.

-low level of financial literacy of the population and professional stock market participants. Until now, most of the population is skeptical and distrustful of the financial sector and especially the securities market. The insufficient level of financial literacy of the population in Uzbekistan is expressed in the inability of citizens to make long-term financial plans, make effective savings, choose financial instruments, improve their quality of life, correctly assess risks, take responsibility for their financial well-being and future. Lack of financial literacy of the population is a limiting factor for the development of the financial market and the economy as a whole.

-insufficient development of the national software product providing for a multifunctional mechanism for accounting and storage of securities. At present, almost all operations carried out by participants in the domestic securities market go through the system of the Unified Software and Hardware Complex of the Stock Market, supplied by the Korean Stock Exchange. The system cannot provide guarantees against leakage of information about the state of state assets and other confidential information outside the republic. ...

Based on the above, we offer the following recommendations to accelerate the development of the stock market, use new incentives to attract portfolio investments to the economy of Uzbekistan:

- taking into account the above factors, it is necessary to create healthy competition between the banking sector and the securities market as the main source of financing for securities;
- to ensure effective disclosure of information, it is necessary to radically change the approaches to organizing investor information;
- to increase the level of financial literacy of the population, it is advisable to develop a special program, the purpose of which should be to increase the level of knowledge of the population about the financial system of the country, functioning financial instruments, skills in using modern payment products and improving the well-being of citizens of the Republic of Uzbekistan;
- it is necessary to improve the system, its correction, in connection with changes in legislation on the domestic securities market, the introduction of new financial instruments and the mechanism of trading on the exchange by local programmers is a necessary part for the further development of the stock market.

Summing up, we note that only in conditions of reliable information about the state of the market and investment resources in the development of the industry, transparency state policy and support for entrepreneurship, stable development trends can be achieved generally. [8]

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