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The Role of the Stock Market in the Development of Social Infrastructure

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ABSTRACT

Possibilities are being considered to expand the use of stock market instruments to finance social infrastructure, and, in particular, debt financing through municipal bonds. The main directions for the formation and development of the market for domestic municipal bonds in Uzbekistan are proposed.

Keywords:

Securities market, social infrastructure, investments, government bonds, municipal bonds, debt financing, issue.

In recent years, according to the International Monetary Fund (IMF), the annual GDP growth in the Republic of Uzbekistan has not fallen below 5.5%, and in some years even higher, which requires appropriate investments. Uzbekistan's gross domestic product at current prices is steadily approaching the value of a trillion soums.

The Decree of the President of the Republic of Uzbekistan Shavkat Mirziyoyev "On the Development Strategy of New Uzbekistan for 2022-2026" in section III "Accelerated development of the national economy and ensuring high growth rates" provides for "An increase in the volume of gross domestic product per capita in the next five years by 1.6 times by ensuring consistently high growth rates in the sectors of the economy with bringing its size to 4 thousand US dollars per capita by 2030 and creating prerequisites to enter the category of "upper-middle-income states".¹

¹ From Appendix No. 1 to the Decree of the President of the Republic of Uzbekistan dated January 28, 2022 No. UP-60

² Decree of the President of the Republic of Uzbekistan "On the Strategy of Actions for the Further Development of the Republic of Uzbekistan". UP-4947 dated 07.02.2017

In the ratings of the business environment published by the World Bank, Uzbekistan is steadily rising to the top in the Doing Business ranking.

Back in the Presidential Decree "On the Strategy of Action on Five Priority Areas of Development of the Republic of Uzbekistan in 2017-2021" in the section "Development and liberalization of the economy", among the priority areas of economic liberalization, "comprehensive and balanced socio-economic development of regions, districts and cities" was envisaged.² The annex to this Decree specifically notes the need to "expand the volume of insurance, leasing and other types of financial services through the introduction of new types of services and improve their quality, as well as the development of the stock market as an alternative source of attracting capital and placing free resources of enterprises, financial institutions and the population."³

³ Annex No. 1 to the Decree of the President of the Republic of Uzbekistan dated February 7, 2017 No. UP-4947.

In our opinion, active work to attract foreign direct investment should be complemented by domestic debt financing, one of the directions of which is the formation of a market of domestic municipal bonds for the development of social infrastructure, and, above all,

in regions, rural areas and small towns. As you know, municipal securities are securities issued on behalf of a municipality. Issuers of state (municipal) securities are, respectively, executive bodies of state power and local administrations, which issue securities on behalf of a public entity and bear obligations to the holders of securities to exercise the rights attached to these securities.

In Uzbekistan, despite the lack of practice of issuing and circulating municipal securities, the potential for their issuance and circulation is very high. A serious prerequisite for the success of the accumulation of funds for municipal loans is the presence of a unique institution of local self-government (mahalla) in the republic. Intensification of the work of state authorities of regions, districts, cities in terms of the development of various projects for the construction of municipal property - local power plants, gas pipelines, water pipelines, heating mains, roads through the issuance and sale of local loan bonds could bring tangible results in the near future.

In our opinion, the formation and development of the domestic municipal bond market of Uzbekistan should be carried out in the following areas:

1. Formation of a regulatory framework for municipal borrowings. The course of economic reforms should gradually be oriented towards the expansion of the economic independence of the regions, the expansion of the powers of local authorities in the implementation of an active regional investment policy based on the mobilization of financial resources, in particular, with the help of municipal securities.

However, the successful implementation of this direction is hampered by weak regulatory support for municipal borrowings. Thus, to date, there is no special legislative act in the republic that regulates the procedure for issuing

municipal securities by administrative-territorial entities of the Republic of Uzbekistan, although certain legal acts allow local authorities to use this type of financial instrument.

Indeed, the Law of the Republic of Uzbekistan "On State Power at Local Levels" (02.09.1993) granted the local authorities the right to manage not only territorial property, but also to make decisions in relation to objects of state property that are in the exclusive ownership of the Republic of Uzbekistan, to exercise control in terms of the effective placement of production and social facilities, the rational use of natural and labor resources, environmental protection, social protection of the population.⁴

Thus, local authorities have a good material economic basis that can be used as an insurance resource for municipal securities.

At the initial stage, on the example of two or three territorial bodies of state power, it is necessary to test the development and passage of the entire process of issuing municipal bonds as a pilot project, which will make it possible to work out the mechanism for issuing securities, track problematic issues, give proposals for their elimination and ensure the necessary approbation by practice of this type of securities before the development and adoption of the urgently necessary Law of the Republic of Uzbekistan "On Municipal Securities".

It is necessary to adopt a law "On Investment Activities in the Territory", which would determine the procedure and conditions for organizing the investment process in the territory. The law should be aimed at stimulating investment activity, developing the investment market, and protecting the interests of investment entities. It is necessary to speed up the development of the "Regulation on Municipal Securities", which should reflect the areas and mechanisms of their application.

2. Formation of a favorable investment climate in the regions. The determining factor for the successful use of the municipal borrowing system is the effective policy of municipal bodies to constantly increase the investment attractiveness of the region through the improvement of the regulatory framework,

⁴ Article 7 of the Law of the Republic of Uzbekistan "On State Power in Places" dated 02.09.1993.

the insurance system, the increase in the aggregate investment effect, the increase in the initiative of the population and the government, and the improvement of financial management mechanisms.

3. Formation of the mechanism of municipal borrowing in the region. The mechanism can be worked out on one of the territorial formations of the republic (there are enough people who want it).

At the same time, the priority areas for preparing for the implementation of the proposed mechanism may be:

- Formation of a monetary fund to support the municipal economy.

- Providing a guarantee of payment of income on municipal securities (e.g., the creation of a special fund).

- Introduction⁵ of a rating system for regions and municipal loans to better guide potential investors in choosing a particular investment object, including foreign investors, where the practice of rating assessments is quite common.

- Credit risk insurance for municipal bonds.

- maximum use of territorial resource potential, as well as effective use of own financial resources of corporations and households.

- development of an effective system for informing the population, domestic and foreign corporate investors.

- Providing conditions for increasing the liquidity of these securities.

- Comprehensive development of the municipal stock market infrastructure.

4. Functional support of the mechanism of municipal borrowing in the region. The financial scheme for servicing a municipal bonded loan should be structured in such a way that its obligations to investors in the required volumes and within the required time frame are secured strictly within the framework of the conditions agreed upon by the parties. Interest payments and, to some extent, the repayment of bonds should be provided at the expense of the repayment fund, formed in a certain proportion of the total amount of funds raised under the loan. In order to reduce the risks of repayment of bonds, it is also proposed to create an insurance (reserve) fund formed on the same terms within the framework of the loan. For the

period of the loan, the resources of these funds are invested in financial instruments that ensure the safety and growth of the assets of these funds. As a rule, the funds of the redemption fund are placed in high-yield financial instruments (shares of privatized enterprises, real estate, foreign currency loans). The rest of the funds mobilized under the loan form the investment fund of the loan and are intended directly for solving the tasks assigned to the loan (servicing cash gaps of the local budget, investment loans or direct investments in social infrastructure facilities, as well as cost-effective and quick-return projects, construction and modernization of production facilities in the region, and so on).

It can be unequivocally stated that, in addition to improving the system of municipal finances, the development of the domestic municipal bond market will require the presence of a developed basic debt market – the market of domestic government securities. A developed market for domestic government securities will provide a benchmark for returns for all other domestic debt markets and will contribute to higher liquidity in all financial markets.

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⁵ Khamidulin M.B. On the need to develop the national rating system of enterprises in the Republic of Uzbekistan. -

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