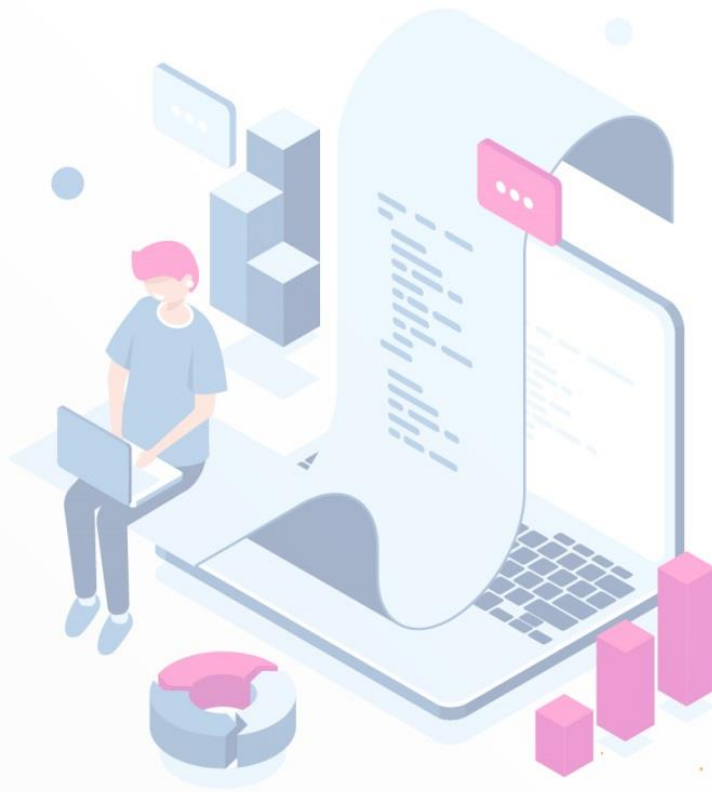


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## **PORTFOLIO INVESTMENTS IN THE ECONOMY OF UZBEKISTAN**

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**Abstract:** The role and importance of portfolio investments in the economy of Uzbekistan is caused by the objective need to increase the scale of their involvement, especially foreign investors for the restructuring of the renovation and development of enterprises created in a joint-stock form. The most significant role of portfolio investment is to replenish the equity capital of enterprises for the purpose of long-term development, by placing shares among portfolio investors.

The paper considers the issues of attracting portfolio investments in the economy of Uzbekistan, the shortcomings of the stock market, and also gives specific recommendations for improving the work of the stock market.

**Keywords:** stock market, securities market, portfolio investment, competition, economy, bank loan

### **INTRODUCTION**

Deepening 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 involvement, especially foreign investors for the restructuring of the renovation and development of enterprises established in joint-stock form.



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The most significant role of portfolio investment is to replenish the equity capital of enterprises for the purpose of long-term development, by placing shares among portfolio investors.

“Our goal is to have hundreds of thousands of owners and shareholders among our compatriots. Citizens of Uzbekistan should be able to invest their savings and earn high incomes.

Therefore, I gave instructions: next year, the shares of the 10 largest companies and commercial banks in the country will be put up for open and transparent trading, in which all our citizens will be able to participate. [1]

#### **Analysis of literature on the topic:**

Portfolio investment is currently a good source of financing for companies, and raising funds through shares means relatively cheap financing, since the payment of dividends, like the growth in the value of a share, is not guaranteed by the company itself, while borrowing from banks is expensive.

Securities are no longer just fictitious capital, but 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. So, Kostyunina G.M. portfolio investments are treated as capital investments that do not give the foreign investor the right to control. They are also called "hot money" or speculative capital due to the potential risk of their rapid outflow due to differences between countries in interest rate levels.

Kulanov A.A. in his article indicates that portfolio investments are operations whose purpose is to create a certain combination (portfolio) of various securities, incl. derivatives, involving intermediaries, both financial and institutional, in the process. Igor Butikov, director of the Research Center of the State Competition Committee of the Republic of Uzbekistan, believes that it is through the mechanisms



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and instruments of the securities market that the national economies of developed countries attract a significant part of the resources for their development.[2]

**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.

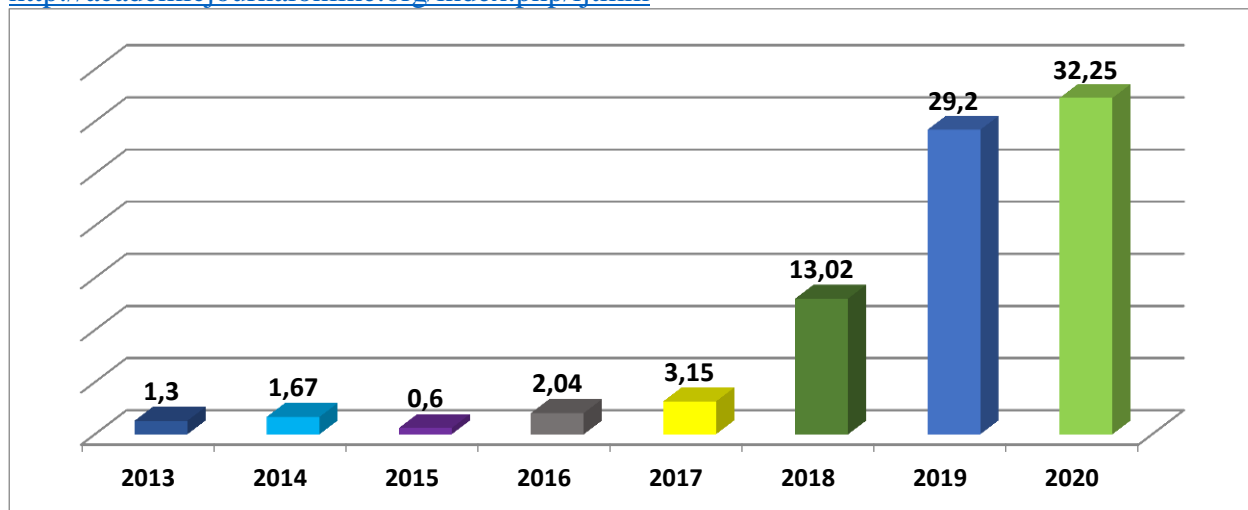
**Portfolio investments** are investments in the purchase of securities of the state, enterprises, banks, investment funds, insurance and other companies. In this case, investors increase their not production, but financial capital, receiving income from holding securities. At the same time, real investments of funds spent on the purchase of securities are carried out 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 only began to gain importance in 2019, with the issuance of Eurobonds reaching \$29.2 million and in 2020 \$32.25 million. Compared to just over \$2 million in 2016, \$3.149 million in 2017 and \$13 million in 2018). [3]

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

Diagram 1

**Attracted portfolio investments in Uzbekistan2013-2020[4]**



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 with them. A strong legal and regulatory framework is essential to these efforts. Building up foreign exchange reserves and cushioning shocks can help insulate the economy from the impact of volatile capital flows[5].

As is known, since 2019, foreign companies trading in securities have been allowed to open accounts in national and foreign currencies, which has served as an important factor in 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, attraction of international financial institutions, etc. The inability to repatriate profits from the sale of shares has been a significant obstacle for most investors for many years, although there was a guarantee from our legislation in such laws as “On investment activity”, “On currency control” in fact, banks did not carry out such an operation until 2019. All of the above factors, in turn, seriously affected the investment attractiveness of the country. Despite the extensive reforms in the field of investment, the stock market still remains undeveloped; this was due to the fact that



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the state, since independence, has paid more attention to the banking sector as a source of financing, which has 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 sums by the end of 2023, creating an effective financing mechanism that is an alternative to bank lending;

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

bringing to 5 percent by the end of 2023 a part of projects financed by issuing securities under the republican and regional investment programs, by ensuring the harmonious functioning and development of all segments of the capital market[6].

The Decree of the President of the Republic of Uzbekistan "On measures to implement the investment program of the Republic of Uzbekistan for 2023-2025" undoubtedly plays in improving this process.[7]

### **Conclusion and suggestions:**

Based on the foregoing, we believe that it is possible to identify problems that require a radical solution. [8,9,10] In particular:

-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 bank loan market, which is the main driver of the development of financial markets. Internal competition in the financial markets forces banks to reduce interest rates on loans, establish more flexible conditions for issuing loans, and issuers of securities to issue them so that



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portfolio investors feel the benefits of investing in securities rather than in banks. In Uzbekistan, such competition is practically absent.

- the system of disclosure of information about the securities market is not used enough . It is necessary to initiate the creation and activation of information dissemination agencies (including ratings, indices, etc.), which must supplement all information on quotes with fundamental and technical analysis data, 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 distrustful and skeptical about 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 build 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. The lack of financial literacy of the population is a deterrent to the development of the financial market and the economy as a whole.

- insufficient development of the national software product, which provides for a multifunctional mechanism for accounting and storing securities. At present, almost all transactions 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 foregoing, we offer the following recommendations to accelerate the development of the stock market, the use of new incentives to attract portfolio investment in the economy of Uzbekistan:



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- 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 securities financing;

- to ensure effective disclosure of information, it is necessary to radically change 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 country's financial system, functioning financial instruments, skills in using modern payment products and improving the welfare of citizens of the Republic of Uzbekistan;

- it is necessary to improve the system, its adjustment, due to changes in legislation on the domestic securities market, the introduction of new financial instruments and the mechanism of trading on the stock exchange by local programmers is a necessary part for the further development of the stock market.

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