



The Value of the Capital Market in Financing the Public Domestic Debt of the Republic of Uzbekistan

Madaminova Nargiza Ibadullaevna¹, Poyonov Babir Bekmurod ogli²

^{1,2} Assistant of the Department "Economics, accounting and audit" of the Tashkent branch of the Samarkand State University of Veterinary Medicine, Animal Husbandry and Biotechnology

Abstract: This article discusses the role and importance of trading systems in the market of government securities placed on the domestic market of the state in the organization of the internal debt of the state. In this regard, proposals have been developed for the further development of trading systems of the stock market in the Republic of Uzbekistan.

Key words: Public debt, public domestic debt, currency exchange, trading systems of the government securities market, bonds of the Central Bank.

The reasons for the emergence of public debt, its increase or decrease in size and amount are inextricably linked with the economic policy of each country, the scale and dynamics of the ongoing reforms.

There are several reasons why the demand for external debt in our country has increased in recent years. The most important of these are issues of economic security, the disproportion between economic power and social needs, an increase in the budget deficit as a result of the misuse of financial resources, emergency situations, in particular, the coronavirus pandemic.

Despite the fact that external debt is one of the most widely used financial instruments in world practice, it is necessary to objectively take into account the dangers of using it to make up for the state budget deficit. Especially for developing countries, a sharp increase in the amount of external debt can cause or increase economic and political dependence on international financial structures. In addition, the continued growth of the amount of debt will cause an increase in the budgetary burden of the state to pay off debts. There is also a high probability of negative situations in the economy as a result of attracting corporate debt from the domestic and foreign markets and spending it on inefficient projects, or as a result of a sharp change in the macroeconomic situation, that is, inflation, economic growth rates and national currency rates.

The main reason why the share of domestic debt in public debt is relatively declining from year to year is related to the level of development of the capital market and its current state. Due to the insufficient recovery of the capital market, the need for securities to finance the state budget deficit is determined at a relatively low level based on domestic demand in the financial market.

One of the topical issues of today is the management of the stock market in accordance with the requirements of the time, when it is important for the economic development of the country.

Currently, there are all the necessary regulatory legal documents regulating the issue of securities, their placement and circulation. Mainly the Civil Code, the laws “On the Stock Market”, “On the Protection of Joint Stock Companies and the Rights of Shareholders”, “On Stock Exchanges and Exchange Activities”, “On Investments and Mutual Investment Funds”, as well as a number of other legal documents and rules of the organizers trade pay off in practice. In order to regulate the country's internal debts and ensure their competitiveness and sustainability of the National Capital Market, programs are being adopted to develop the securities market and improve corporate governance in joint-stock companies.

Increasing the domestic debt ratio by issuing large amounts of government securities is not a quick fix. The Treasury Department is working with the International Monetary Fund, the World Bank, and the US Treasury to diversify the public debt portfolio.

Undoubtedly, the widespread use of domestic sources of financing and the development of the government securities market will reduce currency risks. To this end, the widespread use of opportunities to attract local and foreign investors by placing state and corporate securities in domestic financial markets indicates the need for a rapid recovery of the capital market in Uzbekistan.

Public debt arises as a result of the implementation of debt relations by states. Debt obligations of the state to individuals and legal entities, foreign states, international organizations and other subjects of international law are called public debt. The Law of the Republic of Uzbekistan “On the Budget System” defines public debt as “public debt is the sum of obligations of the Republic of Uzbekistan resulting from the attraction of domestic and foreign funds by the state”¹.

A number of developed and rapidly developing countries are seeing a sharp increase not only in public debt, but also in the debt of commercial banks and the corporate sector, which causes serious problems in the economy, as was observed in the case of countries such as Greece, Portugal and Spain at the height of the global financial crisis . The experience of these countries shows the need for each country to have its own national strategy for constant control over the level of debt, prevention of excessive debt, effective management of external and internal debt.

Taking into account the fact that external debt remains the most effective alternative way of state support for structural reforms in the context of the formation of the domestic capital market in Uzbekistan, it is advisable to take measures to speed up the implementation of financial mechanisms for the country's investment activities. and the debt market. In this case, an important task is the effective attraction of funds in the hands of the population to the economy.

Government securities are an integral part of the financial system of any developing country, based on the requirements of a market economy, which has its own functional, organizational and legal structure. In the Republic of Uzbekistan, this structure began to form in the early 1990s in the process of a deep reform of the entire economic system of the country. Government securities and the mechanisms of this market are a constantly evolving system that is being studied and improved by researchers and practitioners working in the structures of the financial market. Issuing

¹ Law "On the State Budget of the Republic of Uzbekistan".

government securities is one of the most cost-effective ways to cover the budget deficit. The Law of the Republic of Uzbekistan "On the Securities Market" defines: government securities - treasury obligations of the Republic of Uzbekistan and bonds issued by an authority authorized by the Cabinet of Ministers of the Republic of Uzbekistan, as well as bonds of the Central Bank of the Republic of Uzbekistan².

According to the Decree of the Cabinet of Ministers of the Republic of Uzbekistan dated December 14, 2018 No. 1016 "On measures to organize the issuance of state treasury obligations and bonds of the Republic of Uzbekistan", the rules for issuing state treasury obligations and bonds (government securities) of the Republic of Uzbekistan³. In order to effectively ensure the implementation of this decision, on December 26-28, 2018, the Central Bank, together with the Ministry of Finance, on the currency exchange of the Republic of Uzbekistan, with a maturity of six months, one year and up to three years, with a nominal value of 1 million soums, a total of 600,000 pieces of government securities with a total volume of 592.1 billion soums.

Government securities of the Republic of Uzbekistan include:

- Treasury bills and bonds with coupons and discounts issued by the Ministry of Finance of the Republic of Uzbekistan in non-documentary form and placed among commercial banks, as well as other legal entities - residents of the Republic of Uzbekistan;
- bonds of the Central Bank of the Republic of Uzbekistan issued without documents and placed between commercial banks.

Placement of government securities is carried out in the form of a simple auction.

Circulation of government securities is carried out at auctions by the type of a continuous bilateral auction.

The organization and conduct of trading in government securities are regulated by "the Rules for Trading in Government Securities on the Currency Exchange of the Republic of Uzbekistan" and "the Rules for Trading in Bonds of the Central Bank of the Republic of Uzbekistan on the Currency Exchange of the Republic of Uzbekistan"⁴.

All operations on the circulation of government securities are carried out through dealers authorized to conduct operations on the basis of agreements concluded with the Central Bank and the Currency Exchange of the Republic of Uzbekistan.

According to the results of the past period, as of January 1, 2022, the internal debt of the Republic of Uzbekistan is 2.7 billion US dollars) or gross domestic product (GDP) amounted to 4.0%. (Table 1)

Table 1.

As of January 1, 2022, the balance of the state internal debt of the Republic of Uzbekistan⁵

² <https://www.lex.uz/acts/2662539>

³ <https://uzrvb.uz/uzl/o-rgcb2>

⁴ <https://uzrvb.uz/uzl/o-rgcb2>

⁵Review of the state and dynamics of public debt, released by the Ministry of Finance of the Republic of Uzbekistan.

Balance of debt on government securities issued on behalf of the Republic of Uzbekistan (in trillion soums)	4,7
The balance of domestic debt attracted under the state guarantee, subject to repayment from the state budget	2,3
As a percentage of GDP	4,0%

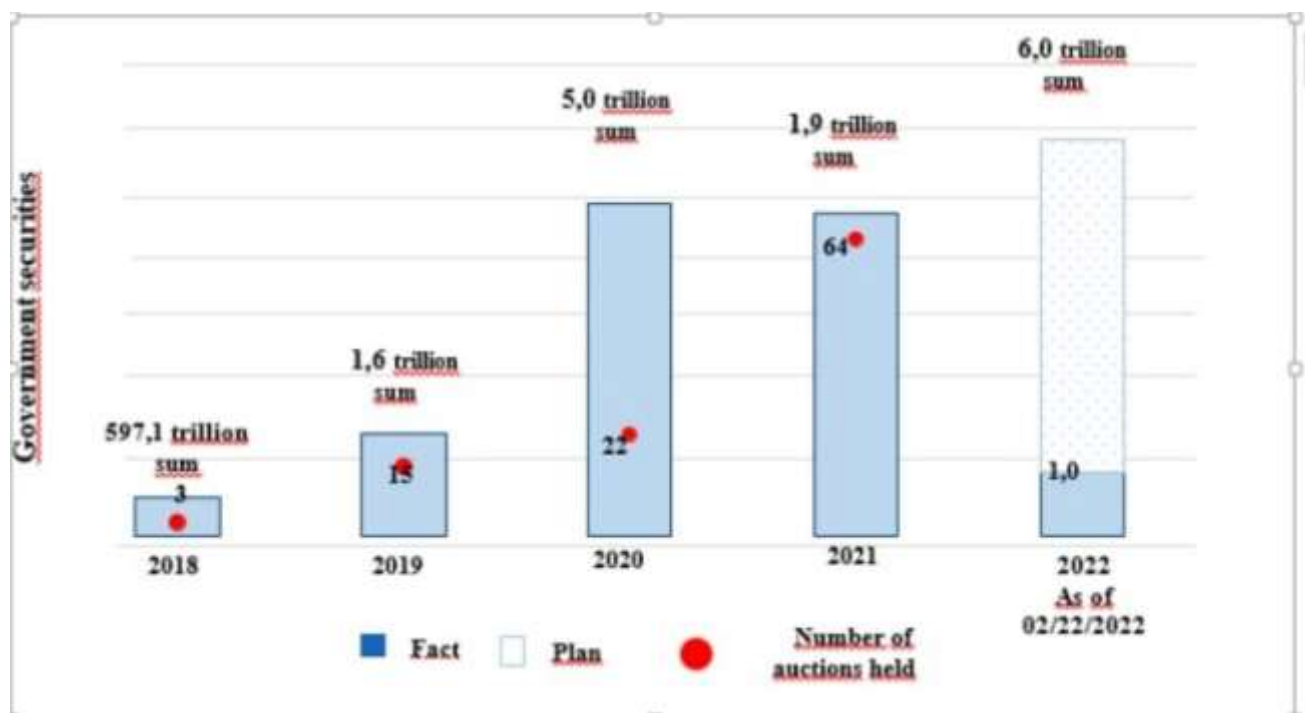
The total amount of government securities issued on behalf of the Republic of Uzbekistan at 64 electronic auctions held in January-December 2021 amounted to 4.9 trillion soums, of which the net amount of government securities issued to finance the state budget deficit amounted to 4.1 trillion soums.

During 2021, government securities in the amount of 4.9 trillion soums (including 4.1 trillion soums to finance the state budget deficit) were placed on behalf of the Republic of Uzbekistan through 64 electronic auctions in accordance with the schedule of government securities auctions. From this:

Government securities, with circulation period of up to 1 year - 3.8 trillion soums;

Government securities, with circulation period of 1-5 years - 1.0 trillion soums.

The issue of medium- and long-term government securities, by issuing low-risk instruments in the national currency, serves as a benchmark for raising funds, diversifies financial instruments, and creates the basis for attracting new participants to the financial market (insurance companies, etc.)



During 2021, government securities were redeemed in the amount of 2.1 trillion soums for up to 1 year, 2.0 trillion soums for 1 and 3 years. As a result, as of January 1, 2022, the debt amounted to 4.7 trillion soums.

The Central Bank of the country performs the function of the main representative for servicing the internal debts of the state. For each issue of bonds, all single and aggregate certificates must be transferred to the depository for storage and accounting by the Ministry of Finance.

Organization and conduct of trading in government securities, carrying out clearing and depository activities, holding auctions and secondary trading in government securities, storing government securities and keeping records of rights to them are among the main activities and services of the Currency Exchange of the Republic of Uzbekistan.

Today, the purpose of issuing sovereign bonds is not only to support the economic and social spheres, but also to increase the ability of the country's corporate structures to use foreign capital and support the growth of the bond market. Therefore, many governments in developing countries are trying to attract investors' attention to the domestic financial market in exchange for improving their international image in the sovereign bond market.

Based on the results of the reviewed study, several proposals and recommendations were developed at the end of this scientific article:

1. Introduction of new financial instruments aimed at collective investors and individuals in order to attract funds to the government securities market. It is necessary to use world experience and issue instruments created to finance important investment projects;

2. Circulation of long-term types of securities in the government securities market. As a result of the issue of long-term bonds for a period of 10 years or more, it is possible to attract long-term investment funds.

3. It would be advisable to introduce the sale of government securities of the Republic of Uzbekistan not on the currency exchange of the Republic of Uzbekistan, but on the stock exchange of the republic, since in developed countries all securities are sold on the stock exchange.

For the orderly and safe handling of government securities, it is necessary to develop legal norms in this area at the level of modern requirements and their constant development, as well as a system for monitoring compliance with the law by all participants in the securities market, from ordinary citizens to government bodies, and it is also important to improve the process of issuing, placing and circulation of government securities in Uzbekistan.

References

1. Law "On the State Budget of the Republic of Uzbekistan".
2. Review of the state and dynamics of public debt, released by the Ministry of Finance of the Republic of Uzbekistan
3. Mamazhonov, A. T., & Eraliev, A. A. (2022). PROFESSIONAL ACCOUNTING AND PROBLEMS OF FINANCIAL ACTIVITY (LOSSES) IN JOINT STOCK COMPANIES. *World Economics and Finance Bulletin*, 9, 132-134.
4. Mamazhonov, A. T. (2020). CONCEPTUAL ISSUES OF ACCOUNTING FOR FINISHED GOODS IN THE AUTOMOTIVE INDUSTRY. *Theoretical & Applied Science*, (12), 373-376.
5. Мамажонов, А. Т., Юлдашев, Б. Т., Фозилжонов, И. С., & Эркинбоев, М. Р. (2016). Вопросы оценки нематериальных активов и их классификация. *Экономика, социология*

и право, (6), 22-26.

6. Мамажонов, А. Т., Фозилжонов, И. С., Хакимов, Ш. Т., & Исамов, С. М. (2016). Учет затрат на осуществление производственной деятельности фермерских хозяйств в условиях рыночной экономики в Узбекистане. Издательство " Научное обозрение". - Наука и мир.-Волгоград, 2(1), 35
7. Mamazhonov, A. T. (2022). The Main Aspects of the Analysis of Costs on Production in Farming Facilities. Middle European Scientific Bulletin, 22, 91-93.
8. JSC "Republican Currency Exchange of Uzbekistan" 2020 / annual report.