



## Opportunities for Developing the Activities of Institutional Investors in The Bond Market

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### ABSTRACT

This scientific article describes the role and importance of institutional investors in developing the capital market of the Republic of Uzbekistan. The dynamics of the development of the corporate bond market are analyzed. Practical data on corporate bonds placed by institutional investors, their interest rates, nominal value and maturity dates are analyzed. Conclusions are presented on ensuring macroeconomic stability through developing the bond market in Uzbekistan.

**Keywords:** Institutional investor, capital market, stock market, share, corporate bond, financial instrument, interest rate, inflation, currency risk.

### INTRODUCTION

The development of the corporate bond market, while ensuring the stability of the national economy, serves to further increase the internal financing capabilities of corporate structures. It should be noted that one of the distinctive features of the financial system of our country is the dominance of the banking sector in financing the activities of corporate structures. However, this form of financing cannot constantly satisfy the demand for capital in economic sectors. As the economy develops, the demand for financing of sectors increases. The lack of relatively cheap long-term financing means that joint-stock companies of the Republic of Uzbekistan are forced to rely on such financial resources as retained earnings, budget funds, funds of higher-ranking ministries or organizations, and foreign loans. One of the advantages of corporate bonds over other financing instruments is the presence of a stock market, which provides the issuer with greater opportunities to manage liquidity and regulate current debts. At the same time, corporate bonds

have several advantages from the point of view of market investors.

The Resolution of the President of the Republic of Uzbekistan No. PQ-90 dated January 17, 2022 “On additional measures to introduce effective mechanisms to support the capital market” sets specific tasks for further developing the capital market, expanding the practice of privatization of state share packages through the capital market, encouraging the population to invest in securities, and creating a healthy competitive environment in the financial market [1].

From the results of the analysis of the corporate bond market, it is clear that the results achieved are not high compared to developing countries, which requires the introduction of modern management instruments in the sector. This directly affects the fact that the financial stability of most joint-stock companies remains at a low level and their investment attractiveness is negatively affected. Therefore, today it is urgent to improve the scientific and practical aspects of financing in joint-stock companies, study international

practical experience in developing the corporate bond market, and develop proposals and recommendations for their use in national practice.

### Review of relevant literature

Research is being carried out by domestic and foreign economists on the scientific and fundamental foundations of the development of the bond market, improving the participation of institutional investors in the securities market, in particular the bond market.

At the current stage of world economic development, the corporate bond market is increasingly taking a leading position in the implementation of new instruments. The bond market is considered an important tool not only for the development of the national economy, but also for fulfilling the needs of corporate structures for financial capital. Improving the participation of institutional investors in the corporate bond market is especially important for increasing market trading volumes [2]. Institutional investors, as important participants in the securities market, are equally important for both investors and the capital market. In recent years, corporate bonds have been widely used not only by industrial corporations, and large corporate associations, but also in building a green economy. The fact that the size of the corporate bond market in developing countries is lower than in developed countries requires them to introduce modern methods [3].

Corporate bonds are becoming one of the important financing tool not only for companies in developed but also developing countries. If the size of the corporate bond market in the United States has reached 46% of GDP, and in the European Union countries - 80%, then in the above-mentioned countries this indicator fluctuates around 10-15% of GDP, which indicates the necessity and development of this market. The main and, perhaps, the most important risk for an investor in corporate bonds is the issuer's credit risk [4].

The corporate bond market plays an important role in the growth of the economy of countries and is one of the main levers for financing infrastructure projects. The use of corporate bonds in financing investment programs by developing countries has reduced the demand for external debt. Investors' interest in instruments with high liquidity remains high, which also helps to form a

source of long-term financing for the company [5]. Corporate bonds are one of the most promising and dynamically developing segments of emerging capital markets. Compared to stocks, bonds, although not having high returns, have a high level of reliability, low risk and guaranteed payments. This ensures the protection of the interests of both investors and borrowers [6].

The low interest rates of debt instruments issued in Uzbekistan relative to bank deposits, the low interest of the population in government securities, and the low difference between real inflation expectations and the yield on government securities indicate a low demand for this debt instrument (by individuals and non-residents) [7]. Financing activities through borrowing directly depends on the level of development of the financial instruments market, which directly represents a debt relationship. In this case, the functioning of the bond market in a developed state along with the credit market contributes to the development of the financial market on the basis of mutual competition. The activity of issuers is also the basis for the activity of investors [8]. Trading in corporate bonds in the securities market, with its attractiveness and opportunities, occupies a special place in the national economy, ensuring mutually beneficial relations between investors and borrowers. The number and attractiveness of financial instruments in the securities market are of great importance, and trading in them is explained by the inflow of capital from local and foreign investors into the economy, and the availability of necessary financial resources by issuers [9].

Based on the above, it can be noted that the development of the corporate bond market, along with ensuring economic growth, is of great importance in developing infrastructure, meeting the demand of corporate structures for long-term financial sources, and increasing the volume of trading in modern instruments in the capital market.

### METHODOLOGY

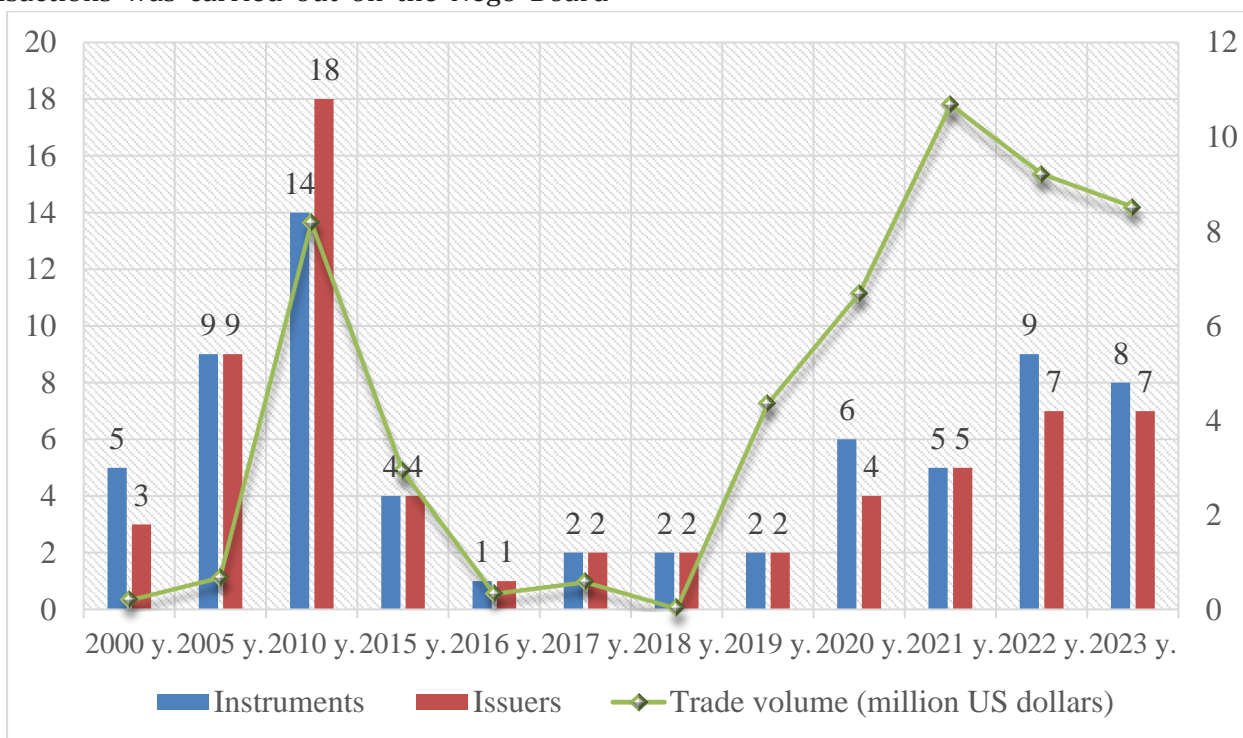
The article uses scientific research, generalization, grouping, comparative methods, economic analysis, statistics, expert assessment, comparative comparison, observation and other methods.

### RESULTS

If we look at the results of the analysis of the debt

instruments market segment on the Tashkent Republican Stock Exchange during 2024, the total number of transactions increased sevenfold, and the trading volume increased by more than 40 percent. In our opinion, the development of the stock market in 2025 is expected to be associated with a further strengthening of the role of debt instruments and, possibly, the establishment of trading on international platforms such as Bloomberg. Also, in 2024, the total volume of trades on the stock exchange reached about 22 trillion soums, which is 7.5 times more than in the same period last year. The main share of transactions was carried out on the Nego Board

platform, and it is known that targeted transactions are carried out in this segment. Corporate bonds occupy an important place in the securities market, in particular in the debt instruments market. However, the practice of financing activities through the issuance of corporate bonds in our country's joint-stock companies remains low. If in 2000, bonds in the amount of 0.20 million US dollars were put into circulation by joint-stock companies through 5 instruments, this indicator will increase to 8.51 million by 7 issuers by the end of 2023. It can be seen that it has reached US dollars (Figure 1).



**Figure 1. Information on the issuance and trading volume of corporate bonds issued by institutional investors at the Tashkent Stock Exchange**

Along with the 6.8% decrease in the main UCI index on the stock market over the past year, the volume of stock trading on the Main Board platform, dominated by retail investors, decreased from 362.9 billion soums to 131.6 billion soums, that is, almost three times. However, the total number of transactions on this platform increased from 400 thousand to 432.3 thousand, or 8.4%. As noted above, the market we are studying in the article, the bond market, has a growth trend, and the total trading volume increased from 92.2 billion soums to 130.7 billion soums (+41.7%). The results of the analysis show that the retail stock market has almost caught up with the bond market in terms of total trading volume. During 2024, the

number of transactions concluded with debt instruments increased from 477 to 3.1 thousand, that is, almost seven times. In turn, these indicators indicate an atypical shift towards the bond market for Uzbekistan.

Since August 2020, LLCs in Uzbekistan have been granted the right to issue corporate bonds, and the volume of debt instruments placed by this type of enterprises in the bond market has been increasing year by year. It is no exaggeration to say that during 2024, the securities of the microcredit organization “Business Finance Microfinance Organization” became the main “driver” of bond transactions among LLCs (Table 2).

**1-table**  
**Volume of corporate bond issuance by institutional investors**

| Tiker    | Emitent                                | Nominal value of 1 unit of bond | Coupon rate (%) | Bonds issued | Issue date/Maturity   |
|----------|--|---------------------------------|-----------------|--------------|-----------------------|
| AABK1    | «Asia Alliance Bank»                   | 1 000 000                       | MB base rate+4% | 50 000       | 15.07.2019-15.07.2026 |
| KPB4     | «Kapitalbank»                          | 1 000 000                       | MB base rate+5% | 50 000       | 13.05.2020-21.05.2027 |
| CRMT3    | «Chust Rir Mikrokredit Tashkiloti»     | 1 000 000                       | 24,0%           | 2000         | 03.04.2021-16.03.2024 |
| UZAL2    | «O‘zagroli zing»                       | 1 000 000                       | 23,0%           | 50 000       | 13.09.2022-10.03.2024 |
| BFMT3    | «Biznes finans mikromoliya tashkiloti» | 1 000 000                       | 27,0%           | 10 000       | 16.09.2022/30.08.2025 |
| BFMT3 V2 |  | 100 000                         | 27,0%           | 200 000      | 09.10.2023-13.09.2026 |
| IFMT3    | “Imkon finans mikromoliya tashkiloti”  | 1 000 000                       | 18,0%           | 6 000        | 10.04.2023-25.03.2026 |
| HKIL3    | “Hamkor invest lizing”                 | 1 000 000                       | 18,0%           | 17 500       | 25.04.2023-06.05.2026 |

In connection with the activation of the secondary market, about 2.5 thousand transactions with securities with a nominal value of 100 thousand soums (7.7 US dollars) were recorded on the account of the microcredit organization "Business Finance Microfinance Organization". Debt instruments under three issues of bonds of this enterprise are being sold at a yield of 27%, which is higher than the deposit rates of most commercial banks (as of November 2024, an average of 22.1% for individuals and 16.3% for legal entities). At the end of 2023, 8 bonds of 7 issuers were included in the list of stock exchange quotations of the "Tashkent" RSE, of which 2 are JSCs, 2 are banking sector and 3 are LLC issuers. Bonds of 5 out of 7 issuers provide a fixed coupon yield (/CRMT3/ - 24.0%, /UZAL2/ - 23.0%, /BFMT3/ - 27.0%, /BFMT3V2/ - 27.00% and /IFMT3/ - 28.0%, /HKIL3 / - 18.0%). The coupon interest on the bonds of /AABK1/ of JSCB "Asia Alliance Bank" and /KPB4/ of JSCB "Kapitalbank" is tied to the key rate of the Central Bank. The maturity of the existing bonds is from 1 to 7 years, and the coupon payment periods are monthly and quarterly. The highest proposed interest rate is 28%. The key interest rate of the Central Bank of the Republic of Uzbekistan fluctuated within 14-15 percent throughout 2023. By the end of the year, it was 14%. Among the bonds, the /IFMT3/ securities of

"Imkon Finance Microfinance Organization" LLC showed activity. The /BFMT3/ and /BFMT3V2/ bonds of "Business Finance Microfinance Organization" LLC also attracted attention. At the beginning of 2023, 10 debt instruments were quoted on the "Tashkent" RSE, but by the end of the year their number decreased to 8. During the year, the /KPBA10/ subordinated bonds of "Kapitalbank" JSCB issued for a period of 10 years were canceled in 2021. Also, in 2023, the /AREL1/, /AREL2/ and /AREL3/ bonds of "Artel Electronics" LLC with fixed interest rates of 21%, 21.5% and 22.5%, respectively, were redeemed in July and December 2023, within the established terms. The debt security /UZMB2/ of Uzmetkombinat JSC with a coupon rate of 22% was also completely redeemed in June 2023 and removed from the stock exchange quotation list. In the reporting year, new debt securities /HKIL3/ of the leasing company "Hamkor invest leasing" LLC were issued for 3 years with an annual coupon rate of 18%. Also, during the current year, microfinance organizations "Imkon Finance Microfinance Organization" LLC /IFMT3/ and "Biznes Finance Microfinance Organization" LLC /BFMT3V2/ issued corporate bonds with a term of 3 years at rates of 28% and 27%.

International practice shows that government debt instruments are one of the financial assets with the

lowest risk and are of interest to many investors. However, the low interest rates on debt instruments issued in Uzbekistan relative to bank deposits, the low interest of the population in government securities, and the low difference between real inflation expectations and the yield on government securities indicate low demand for this debt instrument (from individuals and non-residents).

## CONCLUSIONS

Today, we believe that it is necessary to implement reforms in the following areas to accelerate the activity of institutional investors in the capital market of Uzbekistan, to increase their trading volumes in securities.

The first and most important area is the integration of the market with international platforms. Today, the national stock market has limited access to international financial markets. This is because information about local investors and their securities was not available on international platforms. It should be noted that in 2024, the first stage of reforms in this regard was implemented by providing market data to the Uzbek stock market through the Bloomberg terminal and Refinitiv. The next step is to strengthen the legal institutional framework to enable direct trading of the national stock market through Bloomberg and other platforms. In this case, traders in London, New York or Singapore will be able to trade Uzbek securities directly from their terminals. Achieving such a priority task requires serious work on technological solutions. The second important direction is to create opportunities for selling national debt instruments in foreign currency. In this process, the opportunity to attract foreign investors to trade in bonds placed by corporate structures of our country arises.

The third direction is to increase the number of transactions in securities on the organized market. It should be noted that today the majority of transactions are carried out on the unorganized market. In this process, investors should be provided with more extensive information about the convenience and advantages of trading on the organized stock market. This will further increase transparency, protect shareholder rights, and the ability to attract new investors. At the same time, it is necessary to create an opportunity for international investors in Uzbekistan to store their securities in convenient and easy conditions for them, for which we believe that it is necessary to

develop the practice of working with global depositories in national practice.

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