



FINANCING REAL SECTOR FIRMS THROUGH SECURITIES: EVIDENCE FROM UZBEKISTAN

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Abstract

This paper explores the funding methods of real sector firms and analyzes the case of financing them through securities. In Uzbekistan this type of funding is becoming more widespread although there are some challenges regarding financing through securities. According to the critical review of the studies, this paper concludes people do not trust security market much and change in refinancing rate prevent people investing in securities. The key factors for the improvement of the securities market are to keep interest rates more stable and to have strict regulation on payout policy by real sector firms.

Keywords: Real Sector, Securities, Firms, Financing, Uzbekistan

INTRODUCTION

The real sector is the basis of the economy, which determines its level and specialization.

The term does not have a clear legislative definition. Often used in political vocabulary and journalism without specifying the meaning. At the same time, the real sector can be defined as a set of economic sectors producing tangible and intangible goods and services, with the exception of financial-credit and exchange operations that relate to the financial sector of the economy. It is dominated by industries for the extraction of raw materials and fuel and the production of energy and materials. The fuel and energy complex, metallurgy, a significant part of chemistry, the timber industry complex, the military-industrial complex and their service industries (pipeline and maritime transport) are focused on the external market, and the rest of the industries are focused on the domestic market.



A worldwide manifestation of the growing interconnection between the financial market and the real sector of the economy is the increased use of securities market mechanisms by enterprises.

The securities market is a sphere of realization of economic relations expressed by financial capital, and is part of the financial market in which capital is accumulated and then invested in the real sector of the economy.

In recent years, the role of the securities market in the investment process is becoming more active, its importance in accumulating and redistributing investment resources is increasing. He begins to perform functions typical of countries with market economies, his tools are more actively used precisely in this capacity.

In the context of the issue under consideration, the redistributive function of the securities market is primary, that is, ensuring the flow of funds in favor of the real sector of the economy, which, in fact, determines its level of efficiency, but the role of the securities market in the modern economy is not limited to it. The economic role of the securities market is primarily determined by its place in financing the national economy (enterprises and the state), which implies the need for the most efficient use of all available investment resources (transformational function) and their movement to priority sectors and production (innovation function).

In that part in which the securities market is based on money as capital, it is a stock market. In this quality there is an integral part of the financial market. The stock market forms a significant part of the securities market. The remaining part of the securities market, due to its relatively small size, did not receive a special name. Therefore, the concepts of the securities market and the stock market are often considered synonymous. The use of the term "stock market" is most acceptable when its investment aspect is considered, as can be seen in the economic literature of recent years. Term paper discusses the terms "stock market" and "securities market" as equivalent and denoting synonymous concepts.

An efficiently functioning stock market, as an integral part of the financial market, serves as a provider of investment resources to the real economy, and the primary securities market plays a key role in this.

Consider the features of the primary and secondary levels of interaction of the stock market and the real sector: The primary stock market covers transactions in which financial resources intended for investment flow directly to an investor who attracts capital in this way; It is precisely this that reflects the volumes and directions of investment. The secondary market is many times larger than the primary market in terms of the volume of operations performed, but does not directly affect the size of savings and investments in the country, being responsible

only for the constant redistribution of monetary resources already mobilized through the primary market.

The primary market serves as a source of investment if the issuers are real sector organizations. The secondary securities market performs an informational function in the economy, since it can reflect on the dynamics of securities quotes events and processes occurring in the real sector of the economy, including allowing to foresee the possibility of "overheating" of the economy.

Investing in securities that are already circulating on the secondary market cannot directly affect the amount of investment resources that the issuer will have. The influence of the rate of already placed securities on production activity occurs only indirectly, when the favorable dynamics of quotations (or their presence in general) serve as a sufficient basis for raising the company's rating and positively affect its image. But the influence of quotations of earlier issues on new issues of the issuer's securities is great.

The advantage of using the issue of shares as a source of attracting resources into production, as opposed to bonds, is that the nature of the price changes on them in the market has a greater impact on the amount of funds raised. The company, whose shares in the secondary market have risen in price, receives share premium and can use it for various purposes, directing it to the authorized or reserve funds.

Financing real sector firms in Uzbekistan

Achievement of sustainable economic growth through balanced development of the national economy, its effective structure is an important condition for the development of the country and welfare of the people. In order to achieve this goal it is necessary, first of all, to develop the real sector of the economy.

In our opinion, the real sector of the economy is the economic sector, which consists of enterprises producing raw materials, labor and capital without any interruptions, products and goods. The financial sector plays an important role in the effective functioning of the real sector in the economy.

Effective use of financial resources of domestic and foreign credit institutions plays an important role in the process of modernization and diversification of sectors of the economy. This, in turn, requires the implementation of measures aimed at channeling financial resources into the economy based on specific laws. Such activities put the task of learning as a holistic program, including methods such as foresight, forecasting, and the way in which these processes will lead to future societies. Realization of these tasks has been one of the priority

directions of management and development of the financial resources of real sector enterprises in the country in recent years.

As we know, the development of the real sector of the economy will provide the macroeconomic stability of the country, the choice of management mechanisms. This determines the ways in which the current economic processes will influence the achievement of the planned objectives.

Deepening the processes of integration and globalization in the world poses a number of new challenges to the national economy. For the national economy to find its place in the world market, it is necessary to constantly technically and technologically modernize the enterprises of the real sector. To achieve these goals, technical and technological renewal is needed in all sectors of the national economy. This can only be achieved through the constant introduction of new production management techniques and the advancement of science and technology. In our country in recent years, great attention is paid to increasing the volume and financial stability of the real sector enterprises through the introduction of scientific and technical achievements, modern production technologies and new methods of production management. The introduction of modern information technologies and nanotechnologies into the production process will not only improve the professional skills of labor resources, but also their quality will allow the industry to become more competitive and achieve better results in recent years.

In recent years, most of the goods produced in the real sector of the economy account for the share of industry and agriculture. In turn, this kind of creativity provides the real sector with a significant role in the GDP as well. In this context, it is natural to ask, what other real-sector development opportunities can open up? The development of this sector provides the financial and material base for the development of education, medicine, and culture, as well as opportunities to increase incomes and livelihoods.

Sustainable development of the economy is inseparably linked with the legal and regulatory environment created in the country for material production. That is, in order to attract domestic and foreign investment in the real sector, investors need legal guarantees and their implementation by the state. Graph 1 provides a vivid picture of government support for the real sector of the economy.

The Decree of the First President of the Republic of Uzbekistan of November 28, 2008 № PD-4058 "On the Program of measures to support the enterprises of the real sector of economy, ensure their stable operation and increase the export potential" In accordance with the Decree of the President of the Republic of Uzbekistan "On Measures for Increase of Measures for the Improvement of Natural Resources", PD-4053 has undergone profound structural changes in the real sector. The development of industries and services in the

structure of the agro-industrial complex is required in order to ensure our country has a solid position and competitive advantage in the global market.

In this regard, measures to facilitate greater involvement of commercial banks in the process of financial recovery, modernization, technical and technological renovation of economically insolvent enterprises as envisaged by the Decree of the First President of the Republic of Uzbekistan dated November 18, 2008 No. 4053.

In addition, within the implementation of the Decree of the First President of the Republic of Uzbekistan № PD-2158 of April 3, 2014 "On measures for implementation of information and communication technologies in the real sector of the economy", 24 joint-stock companies, associations and large industrial enterprises 53 projects on automation of management processes were completed. These measures have substantially accelerated the restructuring of the bankrupt enterprises in the country and the launch of new business activities.

In addition, the Decree of the First President of the Republic of Uzbekistan dated November 19, 2008 No. 4010 "On approval of the order of sale of economically insolvent enterprises to commercial banks" provides a number of benefits (assistance) for restoring financial viability of insolvent enterprises. In particular, according to this document, newly established economic entities on the basis of bankrupt enterprises:

- exempt from value added tax;
- exempted from income tax, single tax, property and land taxes for three years;
- exemption from corporate income tax and single tax for two years when it was transferred to management companies. As a result, there have been significant changes in the performance of enterprises that were formerly bankrupt and now restructured through restructuring.

Commercial banks were also given certain opportunities through the aforementioned regulations. Including:

- Creation of a new enterprise on the basis of a bankrupt enterprise with a charter fund up to 100%;
- write off the decision of the bank's board of credit of the bankrupt enterprise earlier issued, not covered, including the amount of the credit guaranteed by the Government;
- Creation and attraction of qualified management company for bankrupt enterprise;
- purchase the bankrupt enterprise at liquidation price, resume its activity and resell it at market prices, etc.

Reforms undertaken in our country to create a stable and effective economy today show its positive results. This can be seen in macroeconomic stability in the country.

Table 1. Changes in Macroeconomic Indicators of the Republic of Uzbekistan and Their Dynamics

Year	GDP in billion UZS	Commercial credits in billion UZS	Investment in real sector in billion UZS	Refinancing rate in %	Exchange rate	Inflation rate in %
2006	21124,9	4104,2	4041,0	16	1219,3	6,8
2007	28190,0	4777,6	5903,5	14	1263,3	6,8
2008	38969,8	6374,4	9555,9	14	1321,1	7,8
2009	49375,6	8558,2	12531,9	14	1467,5	7,4
2010	62388,3	11539,3	15338,7	14	1587,7	7,3
2011	78764,2	15651,5	17953,4	12	1716,1	7,6
2012	96723,4	20391,9	22797,3	12	1888,7	7,0
2013	118986,9	26529,9	27557,3	12	2097,2	6,8
2014	128505,9	34807,2	30561,0	10	2422,4	6,1
2015	138786,4	42685,0	33464,3	9	2810,0	5,6

Source: Statistics Committee of Uzbekistan

As can be seen from the table above, the GDP of the Republic of Uzbekistan for the period of 2006-2015 has a steady tendency for growth and is almost 7 times more than in 2006-2015, ie 21124.9 billion. UZS 138786.4 bn. soums. The growth of investments investment in real sector during this period by more than 8 times, and credit investments more than 10 times, testifies to their significant impact on sustainable growth of the country's GDP, the proportion of GDP growth and the strong correlation between them.

The total volume of credit investments of commercial banks increased by 27.3% in 2015 and amounted to 42.7 trillion soums as of January 1, 2016. soums.

In terms of the structure of credit investments, 86.7% of the loans to the real sector of the economy account for domestic sources.

In 2015, the volume of long-term loans for financial support of the real sector of the economy increased by 27.7% compared to 2014 and their share in the total loan portfolio of commercial banks was 79.8%.

Problems in financing real sector firms through securities in Uzbekistan

In Uzbekistan people do not want to invest in securities because of high risk. They consider that they are more likely to lose their money if they do so. Therefore it is really hard to attract funds through securities. Another reason is that in 2016 refinancing rate increased to 14 percent

followed by 2 percent increase in 2018. And now refinancing rate is 16 percent. Securities such as bonds, offer fixed rate income and this rate is set according to the refinancing rate in the country. Thus frequent change in refinancing rate impacts on the decisions of investors to invest in real sector. In case of stocks, some firms do not pay dividends regularly, so people do not consider stocks to be a good source of generating income.

CONCLUSION

According to the study, following conclusions are drawn:

First of all, there should be strong legislative document that protects the right of investors including minor investors. In this case even households try to invest in securities.

Second of all, information about profitability of real sector firms should be transparent and have easy access for investors.

Third of all, changes in interest rates should not be so frequent, because it will influence the decisions of investors.

Further studies shall involve the empirical analysis about the significance of Eurobonds in interest rate in financial market.

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