

EFFICIENCY OF USING BONDS IN ATTRACTING SHORT-TERM FINANCIAL RESOURCES

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Abstract

Keywords: Bond, capital market, stock exchange, market economy, securities, corporate bonds, issuer, profitability.

This article analyzes the use of bonds, which are considered a relatively risk-free instrument of the financial market, in attracting financial resources, and the importance of this process in the economy. We can witness the stabilization of the bond market in the financial market of Uzbekistan and the increasing use of bonds as a financial instrument. Also, the advantages of attracting financial resources through bonds are mentioned and conclusions on the topic are given.

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INTRODUCTION

For the growth and development of any industry, financial resources, considered the main instrument of the economy, are necessary. There are different district methods of attracting financial resources. For example, attracting resources through bank loans, attracting resources through securities, attracting resources through debt capital or attracting financial resources through crowdfunding using financial technologies, etc. In particular, it includes the attraction of financial resources through bonds, which is considered a type of attraction of financial resources through securities. In the conditions of the developing market economy, it is difficult to find idle funds in the hands of legal entities and individuals. The reason is that legal entities or individuals with such funds, realizing that keeping money will have a negative effect on its value, place them in a bank as a deposit to generate additional value, or by buying securities. They try to increase their funds.

Due to the growing popularity of the financial markets and the possibility of earning a higher profit from them, many investors prefer to bet on the financial markets. In this regard, issuers that can meet the conditions of the financial market are using the practice of placing bonds on the financial markets in order to attract financial resources. Bonds are securities that represent a debt obligation, and depending on the type, income can be obtained from it in the form of fixed interest and in other ways.

LITERATURE REVIEW

The bond market has been the center of attention of foreign and domestic economists. In particular, Frederic S. Mishkin, Stanley G. Eakins in their book "Financial markets and institutions" studied the dependence of the state treasury bonds, municipal bonds, corporate bonds on the correct valuation ¹.

Oskar Kowalewski, Pawel Pisany studied the development trends of the corporate bond market in several Asian countries. In their research, they evaluated the impact of macroeconomic and institutional factors on the development of the corporate bond market. Also, the results of the research show that there is a high correlation between credit rights, the local credit market and the issue value of corporate bonds.

I.L. Butikov conducted research on the theoretical and practical aspects of bonds, paying special attention to their differences compared to shares, classification, composition of issuers, terms of circulation, mandatory redemption, profitability, state, municipal, enterprise bonds, etc., and circulation of corporate bonds. features are detailed ³.

Among the economic scientists of our country, S.E. Elmirzayev's economic views on bonds are considered noteworthy. Bonds appear as a means of raising funds for the state government, various state agencies and municipalities. Companies can also issue and place corporate bonds when they need additional financial resources.

Issuance of bonds has a number of attractive values for the issuing company: through the bond issue, the company can attract the necessary funds without the intervention of creditors in the financial activities of the company. However, the company should consider the funds raised through bond issues as additional funds to bank loans. Even in countries with a highly developed stock market, issued bonds do not cover the gross needs of enterprises for funds. Since bonds represent a debt relationship by their nature, the principles of bank credit are also characteristic of them. Therefore, the right to issue bonds is given only to enterprises that meet the creditworthiness ⁴.

ANALYSIS AND RESULTS


In the financial market, trading processes are carried out through the medium of many securities. But bond has its own importance and comes in handy in attracting short-term debt capital. This situation created favorable opportunities for both the issuer and the creditor. That is, the issuer will have a resource without taking on the burden of additional and heavy obligations. The creditor, that is, the buyer of the bond, will be able to reliably increase his funds in the short term. In the developing financial market of Uzbekistan, there is a slight increase in bond sales compared to previous years.

¹Frederic S. Mishkin, Stanley G. Eakins. Financial markets and institutions. - Pearson, 2015. - P. 308-332.

²What drove the growth of the corporate bond markets in Asia? Oskar Kowalewski, Pawel Pisany. Research in international business and finance, Volume 48, April 2019, Pages 365-380.

³Butikov I.L. Stock market. Textbook. - T.: Konsauditinform, 2001. - B. 26-36.

⁴S.E. Elmirzayev and others Financial market. Textbook. - Tashkent "Economy-Finance" - 2019 324 p

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Submitted: 27 March 2023, Revised: 09 April 2023, Accepted: 18 April 2023, Published: May 2023

Table 1

Analysis of bond sales carried out in Tashkent RSE⁵.
(as of January-February 2023)

Market	period	Trading area	Number of transactions	Number of stocks	Volume of transactions, soums
UZSE BOND	January 2023	Main Board	15	360	361 178 384.11
UZSE BOND	February 2023	Main Board	19	669	666 323 835.00
TOTAL			34	1029	1 027 502 219.11

From the data in the above table, we can see that: in January 2023, 15 transactions were concluded on the Main Board trading floor, the volume of transactions was 361 178 384.11 soums. In February 2023, there was a slight increase in these figures, with deals increasing by 4 to 19. The volume of transactions almost doubled and amounted to 666 323 835.0 soums.

By the end of the first two months of 2023 34 deals on bond sales were concluded, and a total of 1 027 502 219.11 soums of bonds were traded. As you can see bond trading has grown significantly and this can be seen in the numbers as well.

Table 2

Information about issuers whose bonds are available on the "Tashkent" RSE stock exchange quotation sheet⁶(As of February 2023)

No	Issuer	Ticker	Issue date and expiry date	Coupon rate	Nominal price of the bond, soums	Number of issued bonds
1	"Uzmetkombinat" JSC	UZMB2	24.12.2021-26.06.2023	22.0%	5,000,000	10,000
2	"Kapitalbank" JSCB	KPB4	24.04.2020-24.05.2027	+ 5% to CB base rate	1,000,000	50,000
		KPBA10	06.09.2021-30.08.2031	+6.5% to nominal price	10,000,000	10,000
3	"Ozagrolizing" JSC	UZAL2	03.10.2022-10.03.2024	23.0%	1,000,000	50,000
4	"Asia Alliance Bank" JSCB	AABK1	12.12.2014-15.07.2026	+ 4% to CB base rate	1,000,000	45 175
5	"CHUST RIR MIKROKREDIT TASHKILOTI" LLC	CRMT3	04/03/2021-03/16/2024	24.0%	1,000,000	2000
6	"ARTEL ELECTRONICS" LLC	AREL1	10.06.2022-03.07.2023	21.0%	100,000,000	100
		AREL2	10.06.2022-04.01.2024	21.5%	100,000,000	100
		AREL3	10.06.2022-04.01.2024	22.5%	100,000,000	100
7	"Biznes finans mikromoliya tashkiloti" LLC	BFMT3	15.09.2022-31.08.2025	27.0%	1,000,000	10,000

⁵RFB "Tashkent" was prepared on the basis of stock market analysis data

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Today, there are bonds of 7 issuers in the “Tashkent” RSE stock exchange quotation sheet. The indicator of the number of issuers recorded the same result as in January. Despite the fact that the number of issuers did not change, the number and volume of bond trading transactions in February was in an upward trend. That is, in January, 15 transactions with a total volume of 361.18 million soums were implemented, and in February, 19 transactions with a total volume of 666.32 million soums were implemented. It means that the number of transactions has increased to 4, and the volume of trade has increased by 305.14 million soums.

If we look at the coupon rates offered by the issuers, the highest coupon rate is offered by "Biznes finans mikromoliya tashkiloti" LLC. But in this case, the bond repayment period is a little long, i.e. 3 years. Bonds with 10-year maturities can also be seen in practice. Such an offer is offered by "Kapitalbank" JSCB with a rate of +6.5% to the nominal price. It can be said that the longer the maturity of the bonds, the higher the expected return.

Uzbekistan has one of the more diversified export baskets in Central Asia and trades with a wider range of countries than most of its regional peers. Strong export growth and remittance contributions have contributed to a narrowing of the current account deficit from 7.1 percent in 2018 to 5.6 percent in 2019 (IMF, 2020). Uzbekistan has built up substantial external buffers, with reserves at 13 months of imports, and external debt a moderate 35 percent of GDP at end-2018. Plummeting oil and gas prices, combined with a sharp fall in exports are projected to widen the current account balance to almost 10 percent of GDP in 2020, to be financed mostly by development partner assistance and international reserves. The COVID-19 response was partly financed by drawing down international reserves (USD 2.5 billion).

The global COVID-19 pandemic is having a significant negative impact on the economies of Central Asia. Trade has been severely disrupted, healthcare systems are coming under strain, and consumption and investment are plummeting. These global and regional COVID-19 dynamics also severely affect the Uzbek economy, notably through the fall of prices and sales of natural gas to Russia and China, the curtailing of remittances flows from workers in Russia, the partial closing of Kazakhstan, the country’s main export market for fresh agricultural products, and the weight of announced relief measures on public finances (OECD, 2020). Uzbekistan responded swiftly to the first wave of COVID-19 infections by establishing an Anti-Crisis Fund to finance containment measures, expand social protection and support businesses and key sectors of the economy (see Box 1). To some extent this Anti-Crisis Fund contains both COVID-19 response and recovery measures, including significant share of investments in infrastructure and support to SMEs

To date, the GoU hasn’t yet developed a more comprehensive, strategic approach towards a durable and resilient recovery from COVID-19 designed to ‘build back better’, i.e. not only getting the economy and livelihoods back on its feet quickly, but also safeguarding prosperity for the longer term. This means triggering investments and societal changes that will both reduce the likelihood of future shocks and improve our resilience to those shocks when they do occur, whether from disease or environmental degradation (OECD, 2020b). This DFA explores whether an INFF could be a good fit to support financing GoU’s COVID-19 recovery efforts towards building back better. Building back better will require strategies that simultaneously address challenges and deliver reforms across many aspects of public, private, domestic and international financing, to mobilize the necessary investments. Operationalizing an INFF could achieve increased

coherence across the COVID-19 response measures, including the multilateral response, the 'Action Strategy for 2017-21', and the medium-term Poverty Reduction Strategy Paper, currently being formulated. The DFA's main purpose therefore is to provide context analysis to shape the inception phase in the process of operationalizing such an INFF, and to identify priority SDG financing reforms in support of the UN SDG Fund's two-year Joint Programme to be implemented in Uzbekistan.

Uzbekistan made great progress in reducing poverty and inequality. The poverty rate declined from 27.5 percent in 2001 to 11.4 percent in 2018. The latest available data estimates the official Gini coefficient to be 0.29 (World Bank, 2016) and the proportion of people with income below 50 percent of median income fell from 12.7 percent in 2010 to 7.8 percent in 2018. In the short-term, however, poverty is expected to rise in 2020 because of the COVID-19 crisis⁵. To accelerate poverty reduction the GoU is preparing a Poverty Reduction Strategy Paper. While the country was on course to achieve the poverty and inequality goals prior to the COVID-19 crisis, related challenges such as rural-urban and regional disparities persist (World Bank, 2016). Women and youth represent by far the largest group of vulnerable populations in Uzbekistan, with significantly lower than average access to labor markets, tertiary education, decision-making, and business opportunities. The World Bank survey 'Listening to the Citizens of Uzbekistan', conducted in June, provides relevant insights to develop differentiated COVID response and recovery measures according to citizens' needs. The survey could be conducted monthly to monitor the socio-economic impact of COVID and response measures on households' livelihoods.

CONCLUSION

In the conditions of the modern economy, the level of development of the country's economy can be assessed depending on the state of its financial market. Therefore, the development of the capital market in our country is one of the important tasks of the economy. Especially the development of the bond market makes a significant contribution to the circulation of financial resources. Also, bonds serve as a useful tool for attracting short-term debt obligations.

It can be said that the introduction of corporate bonds into circulation for limited liability companies in our country was a sharp turn in the financial market. Now it is necessary to adapt such activities to the activities of limited liability companies and to strengthen them by coordinating them.

In the development of the financial market of the country, in the rapid movement of the economy, additional financial resources will be necessary, and there is an opportunity to collect these necessary funds by means of bonds.

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