



## THE ROLE AND IMPORTANCE OF THE CAPITAL MARKET IN THE NATIONAL AND WORLD ECONOMY

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Article history:	Abstract:
<b>Received:</b> 7 <sup>th</sup> October 2021 <b>Accepted:</b> 7 <sup>th</sup> November 2021 <b>Published:</b> 13 <sup>th</sup> December 2021	In this article the role and importance of the capital market in the national and global economy is discussed. Also, taking into account the development trends of the capital market, the main features of the capital market are identified by the author's scientifically based views.
<b>Keywords:</b> International financial institutions, capital market, World Bank, infrastructure, savings, securities, money market, deposit, investor, financial resources, corporate structure, banking sector, bond	

### INTRODUCTION.

The deepening of modern economic relations, the global significance of financial capital flows and the growing transnationalization of international financial institutions in the world capital market show that the capital market and its institutions play an important role.

According to a number of international financial institutions that are part of the World Bank Group<sup>1</sup>, global capital markets with a global volume of 178 trillion US dollars are one of the strongest factors in economic growth and wealth creation. A developed domestic capital market will allow governments and companies to access long-term financing in local currency, increase investment in innovation, and help sustainable growth in developing countries with more employment opportunities for the growing middle class. In the coming years, capital markets could play a greater role by mobilizing more private capital in key sectors such as infrastructure, housing and climate financing.<sup>2</sup>

In countries with long-term economic development strategies, including the United States, Japan, Germany and South Korea, not only the banking sector, but also the capital market is one of the main tools for economic development and financing. In addition, in these countries, the "wealth" of the population "accumulates" in the capital market, that is, there is a mechanism to increase the income of the

population, entrepreneurs by directing inactive money as an investment in the capital market.

In countries with developed capital markets, entrepreneurs attract money through the stock market outside the banks when they need it, and citizens direct their free money not only to the bank, but also to securities. This will not only provide additional opportunities for entrepreneurs and citizens, but also ensure healthy competition between the banking and capital markets in the country. For almost thirty years, our country has undergone a gradual transition from a planned economy to a market economy. The capital market, one of the most important institutions of a market economy, is still in its infancy. Today, Uzbekistan is at the bottom of the international rankings, which determine the level of development of the capital market. According to industry experts, it takes an average of 20-25 years from the initial stage to the advanced stage when there are consistent and effective reforms.<sup>3</sup>

### LITERATURE REVIEW.

Scholars, who have conducted own research on capital market instruments, such as Moorad Choudhry, Didier Joannas, Gino Landuyt, Rod Pienaar, Richard Pereira in their book, named Capital Market: Instruments Analysis and Valuation described the factors that determine the time value and discount rate of money in the money market, which is one of the segments of the capital market. The research also covers in detail the B-spline method of calculating the discount rate, the determination of the price of bonds over a continuous period, the calculation of the value of bonds indexed by inflation.<sup>4</sup>

<sup>1</sup> World Bank Group: The World Bank (International Bank for Reconstruction and Development); International Finance Corporation (IFC); and Multilateral Investment Guarantee Agency (MIGA)  
[https://openknowledge.worldbank.org/discover?rpp=10&etaI=0&query=capital+market&group\\_by=none&page=2](https://openknowledge.worldbank.org/discover?rpp=10&etaI=0&query=capital+market&group_by=none&page=2)

<sup>2</sup> Capital Markets Development A Primer for Policymakers. The World Bank Group, 1818 H Street NW, Washington, DC 20433, USA; fax: 202-522-2422; e-mail: [pubrights@worldbank.org](mailto:pubrights@worldbank.org).

<sup>3</sup> <https://uza.uz/uz/posts/kapital-bozori-achon-rivozhlanadi-08-01-2020>

<sup>4</sup> Moorad Choudhry, Didier Joannas, Gino Landuyt, Rod Pienaar, Richard Pereira. Capital market instruments



Attasuda Lerskullawat, a Thai scholar who has studied the impact of the capital market and the banking sector on the economic development of countries, uses the bank-level panel data of 89 commercial banks in ASEAN countries, including Thailand, Malaysia, the Philippines, Indonesia and Singapore. In the study, the impact of monetary policy implementation on the banking lending channel, the banking sector and the development of the capital market on the lending channel was considered. The results of the author's research show that monetary policy has a significant impact through the bank lending channel. The higher the capitalization and liquidity of banks, the weaker the impact of monetary policy through the bank lending channel, but the larger the size of the banks, the stronger the bank lending channel. In terms of banking and capital market development, the development of the banking sector leads to a weak impact of monetary policy through the lending channel, and the development of banks in size strengthens the bank lending channel.<sup>5</sup> The specification of the model (Baseline Model) used by the author to study the bank lending channel using the bank-level panel database approach to the impact of the capital market and the banking sector on economic growth is as follows:<sup>6</sup>

$$\Delta L_{i,t} = \alpha_i + \sum_{s=1}^k \beta_1 \Delta L_{i,t-1} + \sum_{s=1}^k \beta_2 \Delta GDP_{j,t-1} + \sum_{s=1}^k \beta_3 \Delta r_{j,t-1} + \sum_{s=1}^k \beta_4 X_{i,t-1} + \sum_{s=1}^k X_{i,t-1} \times X_{i,t-1} + \varepsilon_{it}$$

where:  $L_{i,t-1}$  is the bank loan growth at that time;

$t-1$  and  $GDP_{j,t-1}$  is the real GDP growth rate of j-country;

$r_{j,t-1}$  - change in interest rate;

Kasimova M.I., one of the economists of the

CIS countries, who conducted research on the capital market and its development. In the scientific article "Capital market: dryness, content and location of the ego in the system of market relations" she provides a detailed analysis of important points related to the completeness of all elements of the capital market. The focus is on the financial components that link the capital market to pure financial assets. The author focuses on financial assets and the real estate market, the means of production, scientific and technological innovation, and intellectual property. The research also provides a comparative analysis of the experience of developed countries, which reveals that the real capital market dominates in countries with underdeveloped capital market components. It is noted that the capital market has a broad concept, as it covers the set goals, including the manufacturing, financial and non-manufacturing sectors<sup>7</sup>.

One of the leading scientists in the field of economics, Professor N. Jumaev is one of the scientists who has made a significant analysis of the development of the world capital and financial markets and its problems in the context of the global financial and economic crisis. In this regard, scientists A. Bahobov and N. Jumaev believe that one of the reasons for the global financial and economic crisis is the attraction of financial resources of securities secured by the instability of the stock market and the negative impact of the "bubble effect".<sup>8</sup>

One of the leading scientists of our country NG Muminov studied foreign experience in the development of the capital market and conducted research on the impact of improving the Chinese financial market on the activation of investment processes. The scientist noted that the form of transformation of funds into investments depends on the characteristics of the Chinese financial system. Bank deposits have traditionally held a large share in Chinese funds. The Chinese government is paving the way for population savings for foreign banks. The Chinese market is one of the most attractive markets in the world - the population's personal savings are estimated at more than \$ 2 trillion. In 2009, the Chinese Banking Regulatory Commission allowed four banks to set up their subsidiaries: Hong Kong & Shanghai Banking

analysis and valuation. 3rd Edition. Palgrave MacMillan 2010. 305 p.

<sup>5</sup> Attasuda Lerskullawat. Effects of banking sector and capital market development on the bank lending channel of monetary policy: An ASEAN country case study. Kasetart Journal of Social Sciences. Volume 38, Issue 1, January-April 2017, Pages 9-17. Kasetart University, Bangkok 10900, Thailand

<sup>6</sup> Attasuda Lerskullawat. Effects of banking sector and capital market development on the bank lending channel of monetary policy: An ASEAN country case study. Kasetart Journal of Social Sciences. Volume 38, Issue 1, January-April 2017, Pages 9-17. Kasetart University, Bangkok 10900, Thailand

<sup>7</sup> Касимова М.И. Рынок капиталов: сущность, содержание и его место в системе рыночных отношений. Economic sciences (08.00.00). Fundamental research № 1, 2016, 5 с.

<sup>8</sup> Вахабов А. В., Жумаев Н. Х., Хошимов Э. А. Жаҳон молиявий-иктисодий инкирози: сабаблари, хусусиятлари ва иктисодиётга таъсири юмшатиш йўллари. Т. : "Академнашр", 2009. 141 б



Corp., Standard Chartered Bank PLC, owned by HSBC Holdings PLC, and Citigroup Inc. and Bank of East Asia Ltd.<sup>9</sup>

### RESEARCH METHODOLOGY.

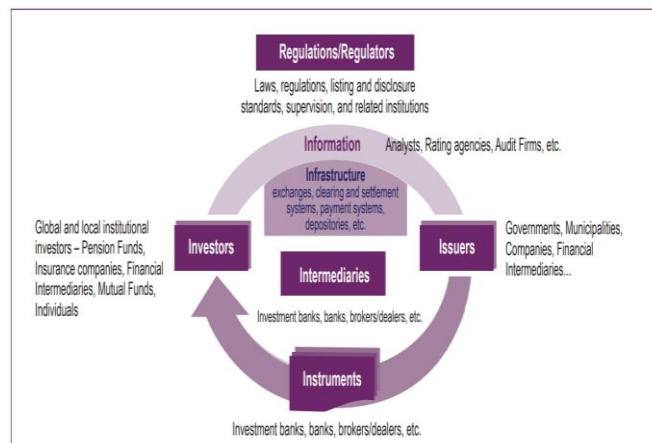
Methods such as observation, empirical study, verbal interpretation, comparison, expert evaluation were used in the coverage of the article.

### ANALYSIS AND DISCUSSION OF RESULTS.

In the international arena, capital markets are becoming globalized as an important segment of the financial system, aimed at directing the savings of the economy to the sector, countries, economic entities with a strong need for capital. In this market, capital transfers are made through financial instruments and securities. These include money market assets, sovereign and non-sovereign bonds, securitized assets such as mortgage-backed securities, participation in collective investment schemes such as mutual funds, and the inclusion of company capital. Unlike deposits, investors bear the risk of such investments. Capital markets consist of a primary market in which the financial instruments described above are sold to their issuers (governments, companies, collective investment schemes, special-purpose instruments) to investors, and securities already issued in the secondary market are sold to investors. In this case, the securities can be issued through private placement or public offering. General private placement is limited to institutional and other complex investors, and price disclosure and trading activities are limited. Securities issued under public offer are open to all, including retail investors, and are traded in regulated markets with sufficient transparency of pre- and post-trading prices. Capital markets rely on professional intermediaries and require an ecosystem that includes a number of market infrastructures, including trading platforms, clearing houses and central securities depositories, as well as a legal and regulatory framework specific to state-controlled capital markets (Figure).

The high level of infrastructure of this ecosystem has a positive impact on the strong integration of capital markets into the economy, increasing its role in attracting financial resources. In

addition, in terms of the direct entry of important elements of the ecosystem of the capital market into the economic and financial relations of the capital market, it is clear that this market plays an important role in the economic system of the world and countries.



**1-figure. Ecosystem of the capital market, which provides economic relations of the subjects to the economies of the world <sup>10</sup>**

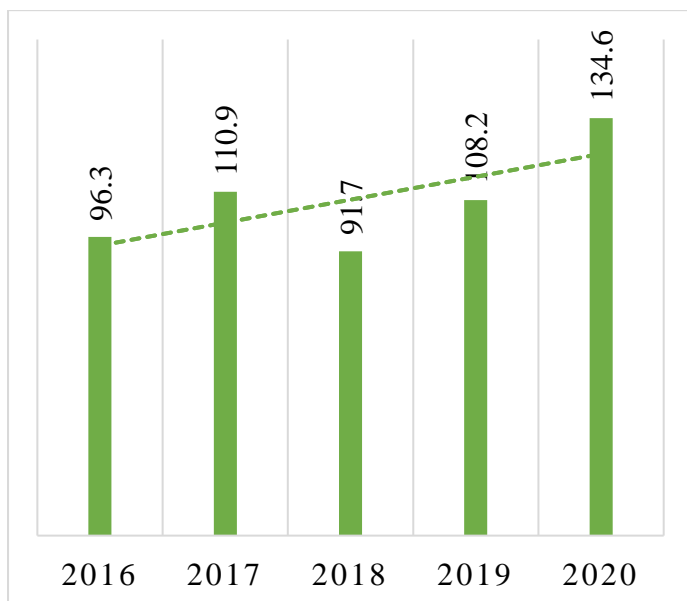
In the capital market ecosystem, which provides economic relations of the subjects to the economies of the world countries mentioned above, one can see the process of ensuring the flow of financial resources for the country's economy through capital market institutions and entities. This, in turn, means that the capital market plays an important role in the flow of investment for the economy.

International experts also believe that developed capital markets are a driving force for economic growth, but also have a positive impact on productive employment. The link between capital market development and economic growth has been proven in the empirical literature. In these literatures<sup>11</sup>, capital markets mobilize additional funds to the economy and direct more capital to companies. This, in turn, will help create jobs and increase real employment, social and material security.

<sup>9</sup> Муминов Н.Г., Хитой молия бозори такомиллаштирилишининг инвестицион жараёнларни фаоллаштиришга таъсири. Иқтисод ва молия / экономика и финансы 2015, 1. 9 с. <https://cyberleninka.ru/article/n/hitoy-moliya-bozori-takomillashtirilishining-investitsion-zharayonlarni-faollashtirishga-tasiri>

<sup>10</sup> Capital Markets Development A Primer for Policymakers. The World Bank Group, 1818 H Street NW, Washington, DC 20433, USA; fax: 202-522-2422; e-mail: [pubrights@worldbank.org](mailto:pubrights@worldbank.org).

<sup>11</sup> SIFMA. 2019. Capital Markets Fact Book.



**2-figure. Change in the market capitalization of the entities participating in the capital market of the world countries in relation to the world GDP, in percent<sup>12</sup>**

The importance of the role of the capital market in the world economy can also be seen in the change in the market capitalization of the above capital market participants in relation to world GDP. In particular, the market capitalization of capital market participants amounted to 96.3% of world GDP in 2016, while in 2020 this figure was over 40%, and the market capitalization was 134.6%.

Well-developed capital markets at the micro level are an important source of funding for corporate structures (joint stock companies, corporations and multinational companies, etc.). Capital markets can be an attractive alternative for businesses that regularly use banking services, as they allow companies to access large amounts of financing, financial resources based on long-term and potentially better economic conditions, thereby reducing overall financing costs. This financing system can be a convenient and resource-free resource for companies looking to expand their business. In addition, capital markets allow companies to diversify their sources of funding. This is especially important in times of crisis in the banking sector. This is due to the fact that the reduction of lending activities of banks may not always provide the necessary financial resources for the activities of business entities. Capital markets, on the

other hand, are a good resource for financing more risky and unsecured businesses and activities that are not traditionally serviced by the banking sector. This is because the capital market pushes investors with a high risk management profile against these "needy entities". In this regard, one of the most important segments of the capital market - the financing of financial activities through the stock markets - plays a very important role. For developing countries, which are multi-capitalized economies, the development of capital markets will also have a positive impact on reducing the cost of financing "entities in need of economic rehabilitation."

As an important role of the capital market to the economy, it can be seen from the point of view of investors that capital markets offer investment opportunities and risk management tools. First, while capital markets are high risk, they offer more attractive investment opportunities in terms of their profitability than bank deposits. In addition, if a wide range of capital market instruments and tools are available, capital markets can also provide investors with a diversified portfolio that contributes to risk management. This is especially important for pension funds and insurance companies in countries with a "younger generation". Because high income rates are necessary for these institutions to ensure decent pay in the future. Well-developed capital markets also provide risk management tools to these financial institutions through derivative markets.

The potential contribution of capital markets to economic growth in developing countries is even more relevant today given the challenges of the Sustainable Development Goals (SDGs). There are major financial issues at stake in achieving key strategic goals. In particular, the development of a single infrastructure sector is projected to require an investment of around \$ 2 trillion per year over the next 10 years. It is also planned to direct financial resources to areas such as housing, small and medium business financing and climate change. It is natural that traditional sources of financing, whether public investment or bank loans, will not be able to attract sufficient financial resources to fill the financial "gaps" in such large areas. The best course of action in this process is to mobilize private sector funds. Capital markets can be an important channel for attracting these private investments, particularly institutional investors. It should be noted that foreign institutional investors alone manage about \$ 90 trillion in financial assets under management. This is a huge financial

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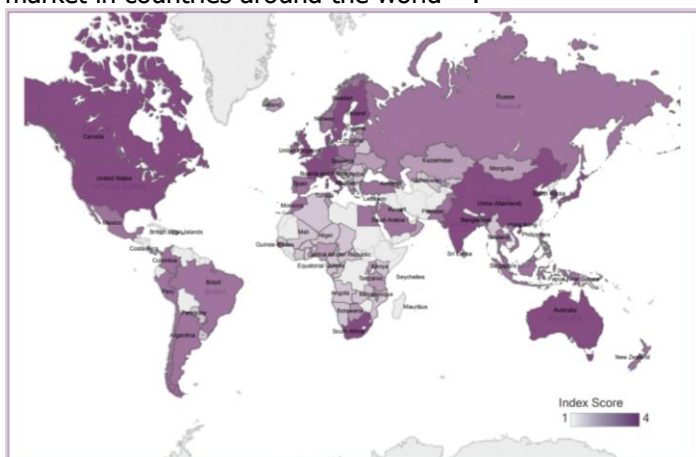
<https://data.worldbank.org/indicator/CM.MKT.LCAP.GD.ZS?view=chart>





investment potential<sup>13</sup>.

Of course, the effective direction of these financial investments will depend on the state of development of capital markets. In this regard, the World Bank Group has published the results of a sub-index assessment on "Levels of development of the government securities market (bonds) in the capital market in countries around the world"<sup>14</sup>.



**3-figure. Levels of development of the government securities market (bonds) in the capital market in countries around the world<sup>15</sup>**

According to the results of this sub-index assessment, the level of development of the government securities market (bonds) in the capital market is expressed on a color scale from 1 to 4. That is, the fact that the color on the scale is darker indicates that the capital market has a high level of development and is transformed into an economy with large financial resources in these capital markets. According to the results of this assessment, the level of development of the segment of the state securities market in Uzbekistan, which is part of the capital market, is not good compared to Central Asian countries, including Kazakhstan. However, it is important to achieve economic development in Uzbekistan through the development of the capital market. In this regard, it should be noted that the

development of the capital market is one of the priorities, and the improvement of this market is a "driver" of future development.

Considering the importance of the capital market for the economy of Uzbekistan, it should be noted that as of January 1, 2021, a total of 599 joint-stock companies with a total face value of 149.5 trillion soums were issued. 254 of these joint-stock companies have a state share of 127.6 trillion soums<sup>16</sup>.

It can also be said that the establishment of the Association of Investment and Financial Analysts last year is one of the practical steps to improve the activities of professional participants in the securities market. Because this structure plays an important role in ensuring the exchange of experience between experts in the field of investment and financial analysis, as well as the exchange of proposals with the regulator of the industry. However, earlier this year, the National Association of Investment Institutions (NAII) was reorganized by investment intermediaries and securities market experts with extensive experience in domestic and foreign markets. The main goal is to create a self-governing non-governmental association of professional participants of the capital market, which will represent the interests of its members in the future<sup>17</sup>.

While foreign bank underwriters help issuers successfully issue international bonds, they also introduce them to potential international investors and play an important role in establishing trade relations. This, in turn, will pave the way for foreign investors in the domestic capital market to be more attracted to the domestic market in the future when they have the opportunity to purchase local bonds. As a result, additional financial resources will appear in the domestic capital market, the demand for local bonds will increase and a competitive environment will be formed. The independent access of local banks and enterprises to global financial markets is also noteworthy. This requires financial reporting to meet international standards, increased transparency and accountability, increased experience in working with international investors, their risk management based on best international practice without government guarantees, and diversification of external funding sources<sup>18</sup>.

<sup>13</sup> [https://openknowledge.worldbank.org/discover?rpp=10&etal=0&query=capital+market&group\\_by=None&page=2](https://openknowledge.worldbank.org/discover?rpp=10&etal=0&query=capital+market&group_by=None&page=2)

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<sup>16</sup> <https://parliament.gov.uz/uz/events/chamber/33535/>

<sup>17</sup> <https://kun.uz/news/2021/02/05/jamshid-gochqorov-kapital-bozorini-rivojlantirish-yuzasidan-parlamentga-hisobot-berdi>

<sup>18</sup> <https://parliament.gov.uz/uz/events/chamber/33535/>



In addition, the successful placement of sovereign international bonds in the national currency for the first time allows the soum to gain value in international financial markets, non-residents have more information about our national capital market and create a benchmark for placing government securities among non-residents. Over the past two years, the Ministry of Finance has taken a number of practical measures to develop the government securities market (GSS). As a result, the volume of placed GSSs increased by almost 10 times. At the same time, for the first time in the history of our country, sovereign international bonds are placed in international financial markets in the national currency. The fact that the order book was closed during the issue with 2.5 times more demand for the sum tranche (ie 5 trillion soums) shows the growing interest of international investors in international bonds in the national currency and confidence in the stability of the national currency. At the same time, the main debt and interest payments of GSS market participants are paid on time by the Ministry of Finance in the prescribed manner. In particular, in 2019-2020, the principal debt of 3217.1 billion soums was repaid and 547.1 billion soums were repaid. UZS interest payments were made on time. It is also planned to issue 5.0 trillion soums in 2021 to cover the state budget deficit<sup>19</sup>.

## CONCLUSIONS.

Based on the above, it can be concluded that the role of the capital market in the national and world economy is extremely important. The active movement of financial resources through these market segments, the intensification of intensive attraction, of course, would not have had a direct positive impact on the development of the national and world economy. Therefore, the constant development of the capital market, ensuring its globalization will lead to further activation of the global movement of capital flows in this market.

Also, the stock market and the financial market, as a major component of the capital market, have played a very important role in the economic relations of economically developed countries. Today, the size of the economies of developed countries is determined by the state of development of the capital market.

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