



## THEORETICAL FOUNDATIONS OF UZBEKISTAN'S FLEXIBILITY TO INTERNATIONAL FINANCIAL AND ECONOMIC RATINGS

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<p><b>Received:</b> 24<sup>th</sup> December 2023 <b>Accepted:</b> 20<sup>th</sup> January 2024 <b>Published:</b> 26<sup>th</sup> February 2024</p>	<p>Today, special importance is attached to the need to systematically analyze the level of socio-economic and political-legal development of the country, to ensure that the implemented fundamental changes serve the purpose of improving the country's position in international rankings and indexes, and to improve the control and law-making functions of the parliament. In this regard, systematic work on ratings is being carried out in our country, and about 10 normative legal documents have been adopted in this field in recent years. However, taking into account the importance of this direction, it was noted that it is necessary to significantly improve the activities of the parliament aimed at these goals.</p>

**Keywords:** Socio-Economic And Political-Legal Development

### INTRODUCTION

Today, special importance is attached to the need to systematically analyze the level of socio-economic and political-legal development of the country, to ensure that the implemented fundamental changes serve the purpose of improving the country's position in international rankings and indexes, and to improve the control and law-making functions of the parliament. In this regard, systematic work on ratings is being carried out in our country, and about 10 normative legal documents have been adopted in this field in recent years. However, taking into account the importance of this direction, it was noted that it is necessary to significantly improve the activities of the parliament aimed at these goals.

Below are the strategies for the indices and the measures within the framework of the strategy to be implemented:

- a strategy to improve the position of our republic in the index of economic freedom-to increase the level of ensuring business freedom, further improvement of labor market freedom, strengthening mechanisms for increasing monetary freedom, strengthening the mechanisms for ensuring the freedom of investments, providing guarantees of financial freedom;
- the strategy of improving the indicators of our republic in the index of competitive industrial productivity - increasing the share of added value of our republic in world production, increasing the level of industrialization, increasing the share of medium and high-tech production in the total production value added, to increase the share of the added value of production in GDP, increasing the quality of industrial exports, increasing the share of production exports in gross exports under the responsibility of the "Center for

the Research of Network Markets and Labor Productivity in Production", strategy for achieving high indicators in the logistics efficiency index, further improvement of customs procedures, development of road (car, railway) infrastructure, increasing the quantity and quality of international shipments, improving the quality of logistics services, improve the ability to track cargo and deliver it on time;

- the strategy of further raising the position of our republic in the global innovation index, i.e. reducing the costs of layoffs in business, increasing the number of foreign students in higher education institutions, increase gross spending on research and development, increasing market capitalization (as a percentage of GDP), increase the number of venture capital deals (per billion USD of GDP), increasing gross expenditures on research and development by businesses, increase the employment of women with academic degrees (percentage), increase spending on computer software (as a percentage of GDP), increasing revenues from intellectual property, increase high-tech exports (as a percentage of the total volume of trade), to increase the export of information and communication technology services (as a percentage of the total volume of trade), to increase the net outflow of direct investments (as a percentage of GDP), development of the entertainment and media market (for the population aged 15-69), increase the number of top-level domains, increase the number of Wikipedia edits (among the population aged 15-69);

- the strategy of achieving the goals of sustainable development and improving the country's position in the Human Development Index - increasing the quantity and quality indicators of food safety and nutrition, strengthening the mechanisms for ensuring health and



well-being, expanding the scope of ensuring gender equality, improving the culture of drinking water supply and sanitation, expansion of stable and reliable sources of energy supply, ensuring decent work and economic growth indicators, industrialization, innovation and infrastructure development, reduce inequality, protect terrestrial ecosystems, expanding cooperation for sustainable development;

- a strategy to improve the position of our republic in the country-specific risk classification system of the Organization for Economic Cooperation and Development. The strategy envisages a program for improving the credit history of borrowers and foreign trade participants, and mechanisms for managing private sector foreign debts;

- the strategy of increasing the position of our country in the e-government development rating: the number of online services, to dramatically increase the scope and quality, telecommunications, internet infrastructure development, from the world information network, in particular, the introduction of mechanisms to increase the number of users of online services and their qualifications;

- statistical capacity building strategy: introduction of special standards for information dissemination of the International Monetary Fund, improvement of the accounting system of public finances, optimization of import and export price index maintenance, increasing the periodicity of population census, increasing the periodicity of agricultural census, increasing the periodicity of surveys related to the study of poverty, increasing the periodicity of questionnaires related to health studies, creation and improvement of databases on indicators.

## **LITERATURE REVIEW**

The traditional theory of capital structure says that wealth is created not only by investing in assets that generate a positive return on investment; it is equally important to purchase these assets with the right mix of equity and debt. Several assumptions are at work when this theory is applied, which together mean that the value of capital depends on the level of leverage. For example, for a firm with only debt and equity financing, the firm pays out all of its earnings as dividends, the firm's total assets and income are fixed and do not change, the financing of the firm is fixed and does not change, investors behave rationally and there are no taxes. Based on this list of assumptions, it's easy to see why there are a few critics.

The traditional theory can be contrasted with the Modigliani and Miller (MM) theory, which states that if

financial markets are efficient, then debt and equity financing are essentially interchangeable and other forces dictate the firm's optimal capital structure.

Until Modigliani and Miller (1958), theories of capital structure were largely descriptive. The first formal treatment of capital structure proposed by Modigliani and Miller (1958) showed that there is no relationship between a firm's value and its capital structure under capital market assumptions. In other words, their results showed that the value of a firm does not depend on its capital structure. However, the main problem in their formation was the lack of tax shield benefits. Shortly thereafter, Modigliani and Miller (1963) revised their formulation by including tax shield benefits. Another problematic result appeared in this form. It is argued that the value of the leveraged firm is equal to the value of the unlevered firm plus the benefit of the tax shield. This means that firms with more debt are more valuable than their peers. The main reason for this problem was the role of bankruptcy costs.

Two theories, called trade-off theory and pecking order theory (Myer, 1984), later emerged to explain how firms make decisions about their capital structure. Trade-off theory suggests that the costs and benefits associated with debt financing affect equity. Therefore, a value-maximizing firm will seek a level of debt that balances the benefits of interest tax protection with the various costs associated with bankruptcy and financial distress (Fama and France, 2002). Pecking order theory, on the other hand, suggests an approach that guides firms in making capital structure decisions. As Myer (1984) points out, firms seek external capital only when they cannot meet their internal financing requirements. Therefore, firms prefer debt to equity because of the higher cost associated with the latter due to information asymmetry.

However, due to information asymmetry, Ali and Javid (2015) argued that credit ratings help firms access capital markets at a lower cost and better. Traditional capital theories do not take into account all the information provided by credit ratings and therefore miss out on important issues related to external financing and financial distress. Kisgen (2006) is the first to empirically present the impact of credit ratings on capital structure decisions through his credit ratings-capital structure (CR-CS) model.

Changes in sovereign ratings can change a country's risk exposure. For example, a downturn can trigger a "flight to quality," where investors move from high-risk markets to more stable markets. On the contrary, an improvement in the sovereign rating can stimulate



investment momentum.<sup>1</sup> While scholars such as Bernal and Berger and others have examined the macroeconomic implications of sovereign credit rating changes, there is a gap in their impact on individual firms in affected countries.<sup>2</sup> Based on Ross and Joe and Na, risks for firms can be divided into systematic (market-wide) and unsystematic (firm-specific) risks. The first affects all assets, and the second can be more rationally distributed.<sup>3</sup> Wang et al highlight the inverse correlation between corporate investment and economic policy uncertainty, further elucidating how changes in sovereign ratings increase policy volatility.<sup>4</sup> The concept of financial contagion suggests that economic shocks in one country can lead to recessions in other countries, especially when systemic risks arise from severe disruptions that affect more than one country.<sup>5</sup> Such contagion effects are evident when correlated markets are disrupted, as detailed by Kalbaska and Gatkowski.<sup>6</sup> In essence, changes in sovereign credit ratings can have broad financial implications.

The essence of credit ratings is their ability to determine the risk of default of a particular organization. Credit rating agencies, including S&P, Moody's and Fitch Ratings, make these ratings.

Chen and others suggest that positive rating revisions are associated with higher capital inflows and lower sovereign bond yields, thereby boosting the economic performance of upgraded countries.<sup>7</sup> Conversely, negative revisions are associated with rising foreign

financing costs, increased capital inflows, and widening sovereign bond yields, forcing foreign investors to be cautious about investing in the affected country. Kraussl notes that changes in the sovereign ratings of "zero" countries have a greater impact on financial markets in developing countries than in developed markets.<sup>8</sup> Flores identifies four main effects of sovereign credit rating changes:<sup>9</sup>

- 1) changes in internal ratings and forecasts significantly affect sovereign spreads and equity prices, with equity prices being more responsive;
- 2) changes in foreign ratings may affect the domestic financial market;
- 3) major rating changes have a stronger impact on financial markets and offset minor ones; and
- 4) financial markets can often anticipate changes in sovereign credit ratings.

A change in sovereign credit rating has both domestic and international implications. Changes in foreign ratings can affect domestic markets, affecting indicators such as sovereign spreads, equity prices and capital flows. Several empirical studies show significant contagion effects in credit default swaps (CDS) and stock markets. For example, Ismailescu and Kazemi divide credit ratings into positive and negative groups and find that positive events have a more pronounced impact on CDS markets and spread to other developing countries at a faster rate than their negative counterparts.<sup>10</sup> In addition, the magnitude of the

<sup>1</sup> P.B. Henry, Stock market liberalization, economic reform, and emerging market equity prices, *J. Finance* 55 (2000) 529–564.

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epidemic resulting from positive rating declarations offsets the magnitude resulting from negative cases. Huang and others show that bearish events cast a greater shadow on abnormal CDS markets than negative views.<sup>11</sup> Nevertheless, such negative shocks have a significantly greater spillover effect than their positive counterparts.

## **DISCUSSION**

This year, Uzbekistan was included in the Hospitality Index for the first time and took 25th place among 195 countries. According to the report of the "Yuksalish" movement, Uzbekistan has risen to 15 places in the ranking of data openness (The Open Data Inventory 2023). In addition, there was a 14-point advance in the Government Artificial Intelligence Readiness Index. Also, the country rose 8 places in the Sustainable Development Goals Index (SDG Index 2023).

Human development, processes of globalization, qualitative and structural changes in all spheres, while raising international cooperation and relations to a new level, impose the task of every independent country to look at these situations in a new way and to take a step forward with them. This is determined by the country's position on the world scale, its position in international ratings and indicators. It should be said that international ratings and indices reflect the development process of each country, it is a reflection of important aspects such as the quality of public administration, the standard of living of the population, human rights protection, favorable environment for business activities and foreign investors, sustainable economic growth and competitiveness. These aspects are embodied in the essence of reforms in our country. All of these serve to glorify human dignity, to ensure that people live contentedly and contentedly with life, and acquire a deeper meaning. As a result of any international ratings that are highly evaluated according to its indicators, the attention of all strata of the world's population, starting with businessmen, is drawn to this country: the investment environment, tourism, service sector will develop, as a result of which the standard of living and well-being of the population will improve.

Behind the country's wealth and success lies the people who work steadily and create opportunities and policies for the country's development. Achieving the Sustainable Development Goals and improving the quality of life is a complex task, and efforts to measure

progress serve to give us a reasonably clear picture of what a successful society looks like.

Various ratings organized and conducted regularly by international organizations have become a useful policy tool for monitoring changes in a certain area of society over time.

Within each dimension, there are components that group indicators into thematic categories. The variety of indicators allows for a granular analysis of the specific foundations of development in each country. And the broad categories of the index framework help to better understand global and regional trends.

Global and international indexes and ratings by international organizations and magazines determine the progress of countries in economic, social, educational, political, and legal fields using various indicators. Ratings determine how positive or negative results a country has achieved in a specific field during a certain period, give an assessment, and note the countries that have the highest, middle or lowest positions in the ratings.

The fact that countries occupy high places in the rankings creates a unique image for them, and the competitive environment that arises for the steps in the rankings creates a basis for self-development. International ratings and indexes play an important role in strengthening the country's economic, social, and institutional reforms in recent years and in strengthening the country's position in the world arena. The fact that Uzbekistan, which is pursuing a policy of openness, is at the top of the international rankings shows the openness, transparency and economic potential of our country. It is natural for countries and organizations that want to establish cooperation in the modern world to pay attention to universally recognized ratings.

On June 2, 2020, the President of the Republic of Uzbekistan Shavkat Mirziyoyev signed the decree "On improving the position of the Republic of Uzbekistan in international ratings and indexes and introducing a new mechanism of systematic cooperation with them in state bodies and organizations[2]. "In addition, on June 22, 2020, the decree "Approving the National Strategy of the Republic of Uzbekistan on Human Rights" was approved, which created the legal basis for practical actions aimed at improving the position of our country in the social-economic and human rights rankings established by international organizations.

<sup>11</sup> A.Y. Huang, C.C. Chen, C.H. Shen, Dynamics of sovereign credit contagion, *J. Deriv.* 22 (1) (2014) 27–45.





In particular, the Republican Council for working with international ratings and indices was established. The aim of this is to control the activity of state bodies at the parliamentary level, and to increase the responsibility of the heads of ministries and agencies, as stated by the Chairman of the Senate of the Oliy Majlis Tanzila Narbaeva [4].

The heads of the ministries and agencies shall report to the Council of the Republic on the work done to improve the indicators in the ratings and indices for which they are responsible, and on the correct performance of the tasks. Also, in order to improve the local implementation of the adopted laws, to identify and eliminate problems arising in the process, local mayors were included in the council.

The main tasks of the council include the following:

- to carry out a systematic analysis of the socio-economic and political-legal development level of the country, to ensure that fundamental changes implemented in various fields serve the goals of improving the country's position in international ratings and indexes, which are a priority for the Republic of Uzbekistan, to eliminate problems that hinder the effectiveness of work in this direction;

- improvement of the system of state power and management, democratization of society, implementation of reforms in the field of state and society building based on advanced international experience;

- approaching normative-legal documents aimed at regulating various aspects of state and community life and their drafts from the point of view of impact on the country's position in international rankings and indexes, which are a priority for the Republic of Uzbekistan.

Officials in state bodies, including the Ministry of Finance and the Ministry of Justice, are responsible for practical work on improving the position of our country in international rankings.

The cooperation of parliament, ministries, agencies and local authorities coordinates the activities of the Republican Council. It is also important for the responsible state bodies to study the international rating

and index methodology in depth, interpret it correctly in practice, and establish contact with the organization that determines the international rating and index.

While emphasizing the importance of international ratings and indices in strengthening economic, social and institutional reforms in the country and strengthening the position of our republic in recent years, we should dwell on the ratings designated as priorities by the Presidential Decree.

In particular, in the socio-economic sphere - Sovereign credit ratings, Doing Business Index, Global Competitiveness Index, Index of Economic Freedom, Logistics efficiency index, Budget openness index, E-Government Development Index, Human Development Index, Sustainable Development Goals, Global Innovation Index, Index of Foreign Direct Investment Regulatory Restrictions; and in the political-legal sphere – management quality indicators, Political stability and absence of violence/terrorism, Government efficiency, Rule of law, Prevent corruption, Press Freedom Index, Corruption Perception Index, Precedence of Law Index, Ratings such as the Democracy Index of World Countries are noted separately.

In order to accelerate reforms aimed at improving the performance of the Republic of Uzbekistan in priority international ratings and indexes on May 18, 2022, the Decision of the President of the Republic of Uzbekistan "On measures to ensure the harmony of scientific potential and practical activities in working with international ratings and indices" was adopted.[1]

According to the WPS index, Uzbekistan ranks 94th among 177 countries in the global index of women's peace and security. Compared to 2021, the country dropped 20 places. The index is based on three indicators: inclusion, equality and security[3].

Uzbekistan remains at the bottom of the political and human rights ratings and indexes, which determine the international image of the country, compared to the ratings in the economic and social directions. The position of our country in the main ratings in the political and legal spheres is reflected in the following table:

<b>Nº</b>	<b>The name of the ratings</b>	<b>The current position of Uzbekistan</b>
<b>11</b>	Worldwide Governance Indicators	
<b>1.1</b>	(Political Stability and Absence of Violence / Terrorism)	136th place



<b>1.2</b>	(Government Effectiveness)	139th place
<b>1.3</b>	(Regulatory Quality)	184th place
<b>1.4</b>	(Voice and Accountability)	182th place
<b>1.5</b>	(Rule of Law)	194th place
<b>1.6</b>	(Control of Corruption)	183th place
<b>2</b>	(E-Government Development Index)	69th place
<b>3</b>	(Corruption Perception Index)	158th place
<b>4</b>	(Human Development Index)	101th place
<b>5</b>	(Rule of law, World Justice Project)	94th place
<b>6</b>	(Democracy Index)	157th place
<b>7</b>	(World Press Freedom Index)	156th place

Improving the position of our country in the international rankings in the political and legal spheres is related to institutional changes, law-making, re-development of non-compliant legislative documents, making changes and ensuring their implementation. Despite the fact that necessary conditions are being created for the freedom of speech and mass media to work without restrictions and obstacles, the low indicators in the ratings indicate that there are still shortcomings and the urgency of the work to be done. The use of foreign experience in the fight against corruption will also bring positive results, it was emphasized by the Chairman of the Senate Tanzila Narbaeva [4]. In addition, taking into account the fact that surveys of international rating agencies are conducted in cooperation with independent civil society institutions, attention should be paid to the increase of such non-governmental non-profit organizations at the national level and the establishment of close cooperation with state bodies. One of the important areas of activity in which Uzbekistan directs its creative potential is related to the renewal of the country's global

reputation, which is reflected in the improvement of its position in international ratings. According to information, there are more than 100 international ratings and indices that determine the position of countries. But the reason why we don't have a place in some ratings or remain in the lower ranks is the lack of a system and an active body in this field until now. As Nadir Jumaev, a member of the Legislative Chamber of the Oliy Majlis, noted, in fact, our real situation may deserve a high place in those ratings. To increase the effectiveness of this process, it is important to establish close cooperation with consultants and experts of international rating organizations, reach mutually beneficial agreements with foreign non-governmental organizations and mass media, increase the initiative of ministries and agencies, strengthen competitiveness in the state economy and private sectors, create a unique national tourism brand of the country. These measures are also important in reflecting the country's place in the Global Competitiveness Index of the World Economic Forum, the Financial Openness Index of the International



Budget Community, the Direct Investment Regulatory Restrictions Index of the Organization for Economic Cooperation and Development, and the Global Innovation Index of the World Intellectual Property Organization, where Uzbekistan has not yet been included.

Human development and globalization processes not only raise international cooperation and relations to a new level, but also encourage every independent country to move forward and develop. These development trends are embodied in the global position of countries, in international rankings. The quality of public administration, the well-being of the population, the priority of human rights, a favorable environment for business activities and investments, stable economic development and competitiveness are considered the essence of the work being carried out in our country.

Ratings are not a goal, they are a reward for a job well done. The state policy and achievements in the fields of economic, social and human rights are reflected in the year-by-year increase in the country's position in international rankings. At the same time, efforts aimed at increasing the position of Uzbekistan in the ratings, which record lower indicators, are a guarantee of strengthening the country's image in international relations and, most importantly, a comfortable lifestyle of people and sustainable development.

## CONCLUSION

The doing business index assesses the ease of doing business for these business entities on the example of selected cities, the regulatory environment for small and medium-sized businesses in the countries and the practical application of the rules. The 190 countries included in the report published for 2020 were evaluated on a scale of 0-100 in 11 areas:

Index values are calculated on the basis of a survey conducted among entrepreneurs (91 respondents participated). The World Bank also monitors Employment and Government Contracting indicators, but is not included in the assessment.

In addition to a number of methodological changes, the report, which is scheduled to be published in 2021, is expected to include an indicator of concluding contracts with the Government. Top performing countries:

Among the top 10 countries are New Zealand, Singapore, Hong Kong and South Korea (Asia), Denmark, Georgia, Great Britain, Norway, Sweden (Europe) and the USA.

- Results of some countries in the region: Georgia - 7th place, Kazakhstan - 25th place, Russia - 28th place, Kyrgyzstan - 80th place, Tajikistan - 106th place.

Uzbekistan ranks 19th among 24 countries in the region, the average score of the region is 73.1 points. The 5 lowest ranked countries are: Libya, Republic of Yemen, Republic of Venezuela, Eritrea and Somalia.

- The rating of Uzbekistan increased by 50% of indicators (5 indicators). According to the following indicators, positive changes were noted in Uzbekistan:

- Registration of enterprises (8th place, +4 places), reduced time from 4 to 3 days and reduced costs from 3.1% to 2.2%. For the first time, Uzbekistan entered the top 10 countries according to this indicator.

- Protecting minority investors (37th place, +27 places), strengthening the protection of minority investors by increasing the rights of investors and their role in key corporate decisions, and further improving ownership and governance structures and corporate transparency.

- Contract enforcement simplified contract (22nd place, +19 points) enforcement by adopting a consolidated law on voluntary mediation, establishing financial incentives for mediation, and publishing performance evaluation reports in local commercial courts.

- International trade (ranked 152, +13 places) has been facilitated by the introduction of risk-based inspections and simplified compliance with import documents.

- The decrease in the index was observed according to the following indicators:

- Connection to the electricity supply system (36th place, -1 place) due to no changes in the number of procedures (4) and time (88 days).

- Obtaining credit (67th place, -7 points), stagnation of legal rights performance indicators (6 points out of 12 points in total) and depth of credit information (7 points out of 8 points in total).

- Payment of taxes (69th place, -5 points), due to the stagnation of the tax procedure after reporting and paying taxes (post-completion index 48.2 out of 100 points).

- Property registration (72nd place, -1 place) slightly improved parameters procedures (no changes), time (-3 days), prices (-0.4%) and quality of land management index (0.5 points) due to a decrease.

- Due to stagnation of insolvency resolution (100th place, -9 points), duration of insolvency procedure (2 years) and effectiveness of the regulatory framework (out of 16 points 8 points).

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