

THE ROLE OF FINANCIAL MARKET REGULATIONS IN PREVENTING CORPORATE INSOLVENCY IN UZBEKISTAN

Olimjonova Munisa Nuriddin qizi

Tashkent state university of economics

Accounting faculty

Abstract. *This article studies the role of financial market regulations in preventing corporate insolvency in Uzbekistan, and regulations being implemented such as Uzbekistan 2030 strategy. While mentioning the primary reasons of the failure according to the recent global data, the study highlights key reforms, such as strengthened corporate governance, IFRS compliance, and international practices in order to prevent and mitigate the risk of insolvency in financial markets.*

Key words: *corporate insolvency, financial market, financial reporting, IFRS, NPL, leverage, Uzbekistan 2030, bankruptcy.*

Introduction. Corporate insolvency is a significant risk that threatens not only single entity, but financial stability, economic growth, and investor confidence. In Uzbekistan, recent financial reforms under the "Uzbekistan 2030" strategy include sections regarding market regulations to mitigate insolvency risks. With the increasing integration of Environmental, Social, and Governance (ESG) principles, corporate financial health is under stricter scrutiny, which requires effective financial market regulations. This article explores the role of financial market regulations in preventing corporate insolvency, analyzing international best practices and real cases while considering Uzbekistan's economic framework.

Literature Review. The role of regulations, especially regarding the financial markets has been noticed in many cases in recent years. The related issues have been appearing mostly due to the poor risk management and lack of financial literacy. Thus, various studies emphasize the significance of robust regulatory frameworks in addressing corporate insolvency and maintaining economic stability as well.

The World Bank developed principles for effective insolvency and creditor/debtor regimes (2021), and the practice manager, Mahesh Uttamchandani, states that after the Asian financial crises we learned more about ICR systems, how they can be used in promoting growth in financial sector and in resolving NPLs (nonperforming loans).⁶³ The guide also mentions that countries all around the world will need to assess the state of their financial stability as we start to recover and rebuild from the COVID-19 pandemic.

Furthermore, state financial bodies such as SIF Switzerland (2024) highlights the most important goals of financial market regulation are protection of the individuals, system stability and properly functioning financial markets.⁶⁴ Thus, the institution points out the contribution of stringent financial regulations

⁶³ Principles for Effective Insolvency and Creditor/Debtor Regimes, World Bank.

⁶⁴ Financial market regulation, SIF <https://www.sif.admin.ch/en/financial-market-regulation>

to reducing corporate insolvencies with the use of enhanced transparency and accountability.

Afanas' ev, M., and Shash, N.(2022) conducted a research in the corporate sector and their academia over the last decade has confirmed that adherence to ESG principles in a number of cases can improve risk management and produce returns comparable to those of traditional financial market investments.⁶⁵ The results of the study represented a direct correlation between strong governance mechanisms and lower corporate default rates.

Methodology. The study was conducted using economic analysis methods and data collection. The qualitative and quantitative data were obtained from the World Bank, CBU's official reports, providing graphical and statistical analysis. In addition, international standards regarding financial markets and financial reporting standards were analyzed, suggesting their implementation in national practice.

Results and Discussion. Corporate insolvency occurs when companies fail to meet their debt obligations, which in turn leads to liquidation or restructuring. It has been noticed that the insolvency primarily is caused because of the poor management. The first reason can be the issues relating financial reporting and audit practices, even there are situations when both by the business entity and auditor deliberately present inaccurate figures in financial statements and reports.

Another significant problem is poor corporate and risk management, such as the case of Silicon Valley Bank collapse in 2023. Entities sometimes are not able to foresee the consequences of their actions or be vulnerable to external shocks, in particular, currency depreciation and sudden change in inflation rate. Not only shocks, but limited access to capital markets has considerable impact on the financial stability of companies as well.

In addition, banks can be more sensitive to the external factors. First possible problem that banks need to manage is the level of non-performing loans (NPL). Since this kind of financial institutions are active players in financial markets, they are definitely affected by the rate of inflation, interest rates, stocks and bonds.

Financial data in Uzbekistan show that financial and corporate institutes have not suffered huge losses so far, however there are some industries that are affected by financial risks and needs to be prevented from the potential danger. According to the Central Bank of Uzbekistan's 2023 report, NPLs in state-owned banks exceeded 5%, whereas People's bank recorded 9.5% of NPL⁶⁶, posing great financial stability risks.

Also, most Uzbek companies still operate in national standards, however, nowadays these standards are being changed in order to comply them with IFRS. This may prevent companies from applying international regulations and effective risk assessments that were accepted globally.

⁶⁵ Afanas' ev, M. P., & Shash, N. N. (2022). ESG transformation in the corporate sector: Systematizing the global approach. *Studies on Russian economic development*, 33(6), 707-715.

⁶⁶ <https://cbu.uz/en/statistics/bankstats/1279596/>

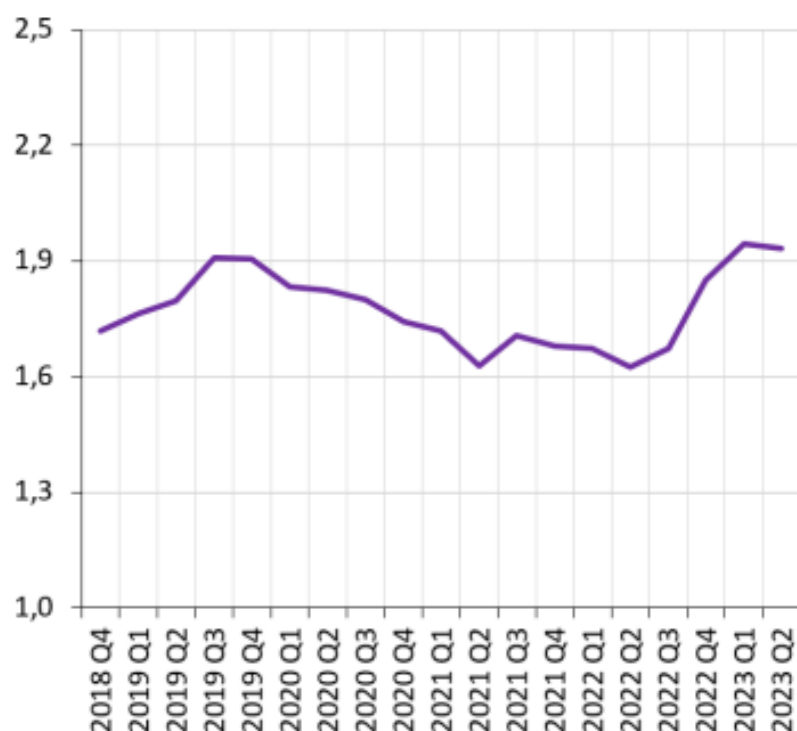


Figure 1. Total Liabilities-to-Capital Ratio of Selected 60 Large Companies

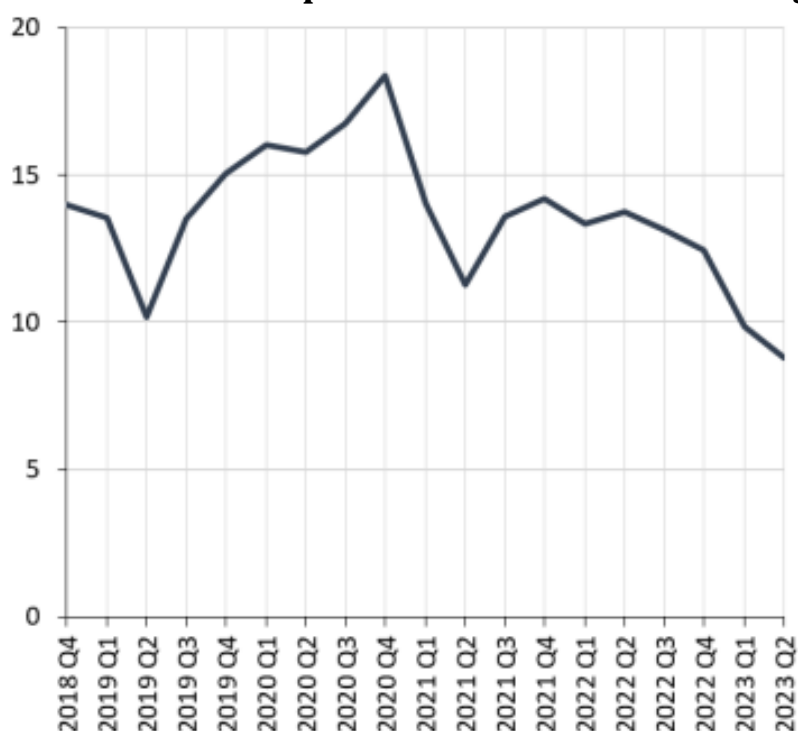


Figure 2. Interest Coverage Ratio for Selected 50 Large Companies⁶⁷

The liabilities-to-capital ratio rose for a few large companies in H1 2023, suggesting that corporate leverage has increased. This implies that unexpected events could make it challenging for businesses to pay back all of their debts. The interest coverage ratio has been declining since the beginning of 2023, indicating

⁶⁷ The Financial Stability Report 2023/1. https://cbu.uz/upload/medialibrary/151/2ugv7xjycknyjtb2ex6sbzv3gwe4hcbd/FSR_H1_2023.pdf

a minor fall in enterprises' ability to repay debt. The interest coverage ratio fell to about 8% by the end of H1 2023.

The existing insolvencies and failures seen in global economy suggest more robust regulations must be adopted to prevent insolvency. Here are the 3 possible solutions to address the problem:

- *Adopting international insolvency and creditor rights principles.*

Principles mentioned in World Bank's Principles for Effective Insolvency and Creditor/Debtor Regime, accounting, and auditing international standards should be officially adopted and required in corporate entities. Because These principles emphasize clear bankruptcy laws that facilitate quick and fair resolution, strong creditor protection to ensure lending remains stable and efficient judicial frameworks to handle insolvency cases without prolonged delays.

- *Strengthening Corporate Governance and Financial Reporting*

The government has to promote IFRS compliance for all listed companies. External audits by Big Four firms or leading Uzbek audit companies, additionally, ESG-based reporting standards should be required to ensure companies integrate sustainable financial practices.

- *Developing Capital Markets to Reduce Debt Dependence*

One of the challenges in Uzbekistan is the reliance on bank loans rather than capital markets for financing. In recent years, there has been a strong emphasis on the development of the stock market in Uzbekistan, with the aim of increasing the capitalization of free traded shares to at least \$ 8 billion by "Uzbekistan - 2030" strategy. In 2023, this figure was \$ 340, and then by 2030, it should grow by more than 20 times.⁶⁸ The strategy also aims to introduce new financial instruments, such as corporate bonds and derivatives and improve financial literacy to encourage broader participation in equity markets.

Conclusion. When it comes to tightening financial market regulations to stop corporate insolvency, Uzbekistan is at an important turning point. A more robust financial system may be established in the nation by integrating ESG principles, improving transparency, in particular, conforming to global best practices. This practices and effective regulations can ensure that long-term financial stability and economic growth in addition to safeguarding business entities.

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4. <https://cbu.uz/en/statistics/bankstats/1279596/>

⁶⁸ Turdieva, U. O. . (2024). Stock Market Development Practice in Uzbekistan. EUROPEAN JOURNAL OF BUSINESS STARTUPS AND OPEN SOCIETY, 4(4), 76-80. Retrieved from <https://www.inovatus.es/index.php/ejbsos/article/view/2921>

5. The Financial Stability Report 2023/1.

https://cbu.uz/upload/medialibrary/151/2ugv7xjycknyjtb2ex6sbzv3gwe4hcbd/FSR_H1_2023.pdf

6. Turdieva, U. O. (2024). Stock Market Development Practice in Uzbekistan. *EUROPEAN JOURNAL OF BUSINESS STARTUPS AND OPEN SOCIETY*, 4(4), 76–80.

MOLIYA BOZORDA HISOB-KITOB TIZIMINI TAKOMILLASHTIRISH

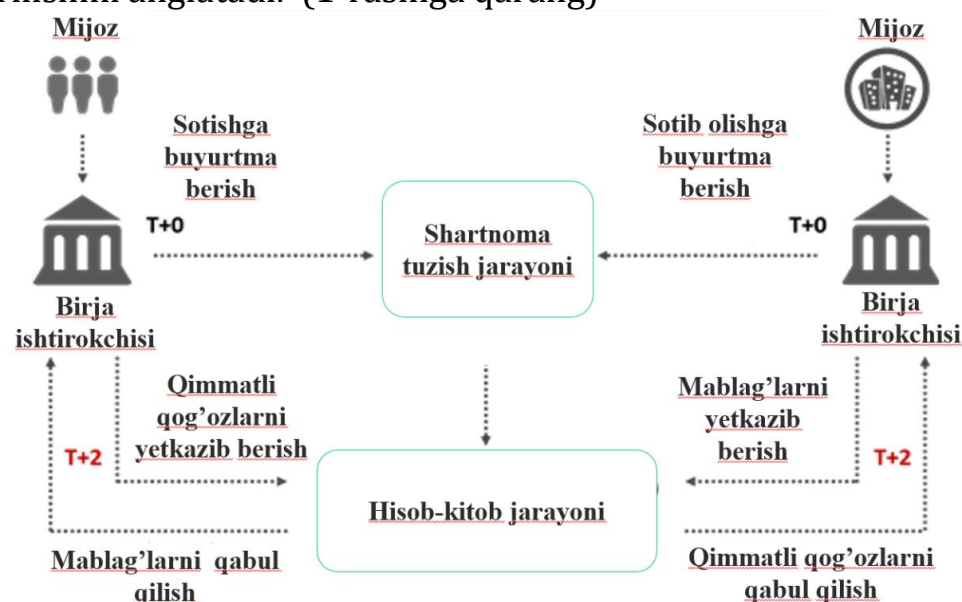
Tursunxodjayeva Sh.Z.

“Moliya va moliyaviy texnologiyalar”

kafedrası dotsenti, PhD

Moliya bozorni rivojlantirish, unga investorlarni yanada kengroq jalb qilish uchun moliya bozordagi hisob-kitob (kliring) tizimini samarali yo'lga qo'yish talab etiladi. Bugungi kunda, O'zbekiston Respublikasi Prezidentining 2023-yil 2-sentabrdagi “Kapital bozorini rivojlantirishning qo'shimcha chora-tadbirlari to'g'risida”gi PQ-291-sonli qaroriga muvofiq hisob-kitob modelining T+1 shaklidan T+2 modeliga o'tish belgilandi.

Bunda, T+1 (T+2, T+3) qimmatli qog'ozlar bo'yicha operatsiyalar bo'yicha hisob-kitob davrini bildiradi. Bu yerda, T tranzaksiyani hamda raqamlar esa bitim tuzilgan sanadan boshlab hisob-kitob bo'lgunga qadar davrni anglatadi. Misol uchun, T+2 shaklida bitim amalga oshirilgandan so'ng 2 kundan keyin hisob-kitob amalga oshirilishini anglatadi. (1-rasmga qarang)



1-rasm. “T+2” yangi hisob-kitoblar (kliring) modeli⁶⁹

Hisob-kitob jarayonini qachon amalga oshirilishi, investorlar uchun muhim sanaladi, chunki hisob-kitob bo'lgandan so'ng, qimmatli qog'ozga egalik qilish boshlanadi, bu esa dividend kim olinishini hal qiladi.

⁶⁹ Muallif tomonidan ishlab chiqildi.