

ENHANCING FINANCIAL MARKET STABILITY THROUGH THE DEVELOPMENT OF INSTITUTIONAL INVESTORS IN UZBEKISTAN

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Abstract. *This article analyzes the role of institutional investors in strengthening financial market stability in Uzbekistan. Institutional investors such as pension funds, insurance companies, investment funds, and commercial banks play an important role in capital market development, risk diversification, and long-term investment financing. The study examines the theoretical foundations of institutional investors, evaluates the current condition of institutional investors in Uzbekistan, and identifies the main challenges limiting their development. In addition, the article proposes several policy recommendations aimed at increasing the participation of institutional investors in the financial market. Strengthening institutional investors will contribute to improving market liquidity, increasing investment activity, and ensuring sustainable financial stability in Uzbekistan.*

Keywords: *Institutional investors, financial market stability, capital markets, pension funds, insurance companies, Uzbekistan financial system, investment funds.*

The development of stable and efficient financial markets is an important factor for sustainable economic growth. Institutional investors play a key role in the development and stabilization of financial markets. These institutions accumulate large volumes of financial resources and allocate them into various financial assets, thereby supporting investment activity and improving market efficiency.

In many developed countries, institutional investors such as pension funds, insurance companies, and investment funds are major participants in capital markets. They provide long-term financing, enhance market liquidity, and contribute to better corporate governance.

In Uzbekistan, the financial system remains largely bank-dominated, while the role of institutional investors is still developing. Therefore, strengthening the role of institutional investors is essential for improving financial market stability and supporting long-term economic development.

The purpose of this article is to analyze the role of institutional investors in ensuring financial market stability in Uzbekistan and to propose recommendations for strengthening their participation in the financial system.

Theoretical Foundations of Institutional Investors: concept of Institutional Investors

Institutional investors are organizations that invest large pools of capital on behalf of individuals or other entities. They act as professional financial intermediaries and manage financial assets with the goal of generating stable returns.

Examples of institutional investors include:

- Pension funds
- Insurance companies
- Mutual funds
- Investment funds

- Sovereign wealth funds
- Commercial banks

Institutional investors are characterized by several important features. First, they possess large investment capacity, which allows them to influence financial markets significantly. Second, their activities are based on professional asset management conducted by qualified financial specialists. Third, institutional investors usually adopt long-term investment strategies. Finally, they rely on portfolio diversification to reduce risks and increase investment efficiency.

Institutional Investors in Financial Market Development. Institutional investors play a significant role in the development and functioning of financial markets. Their participation contributes to the overall efficiency and stability of the financial system.

First, institutional investors increase market liquidity by actively participating in the buying and selling of financial instruments. Second, they contribute to efficient capital allocation by directing financial resources toward productive sectors of the economy. Third, they help diversify risks by investing in various financial assets and sectors.

In addition, institutional investors contribute to the improvement of corporate governance by monitoring the activities of companies in which they invest. Their long-term investment strategies also provide stable financing for businesses and government projects.

Financial Market Stability. Financial market stability refers to the ability of a financial system to function effectively even in the presence of economic shocks. A stable financial system ensures the smooth functioning of financial institutions, markets, and payment systems.

Financial market stability includes several key elements:

- the ability to withstand economic shocks
- maintaining sufficient market liquidity
- efficient price formation in financial markets
- protection of investors' interests

Institutional investors contribute to financial stability through their long-term investment horizons and relatively conservative investment strategies. Unlike short-term speculative investors, institutional investors typically focus on stable returns and diversified portfolios, which helps reduce market volatility.

Institutional Investors in Uzbekistan. Overview of Uzbekistan's Financial Market

Uzbekistan's financial market consists of several major components, including the banking sector, capital markets, insurance sector, pension system, and stock exchange.

The main trading platform for securities in the country is the Tashkent Republican Stock Exchange (UZSE). Despite ongoing financial reforms, Uzbekistan's financial system remains largely dominated by the banking sector. Capital markets are still developing, and institutional investor participation remains relatively limited.

However, the government has been implementing various reforms aimed at strengthening financial market infrastructure and increasing investor participation.

Types of Institutional Investors in Uzbekistan. Pension Funds. The pension system in Uzbekistan is primarily state-controlled. Pension funds have limited investment activities, which restricts their role as institutional investors in the financial market.

Insurance Companies. Insurance companies represent another type of institutional investor in Uzbekistan. They typically invest their funds in relatively safe financial

instruments such as government bonds, bank deposits, and corporate securities. However, the overall scale of their investment activities remains relatively small compared to international standards.

Investment Funds. The investment fund sector in Uzbekistan is still underdeveloped. In many developed economies, investment funds are major participants in capital markets, but in Uzbekistan their role remains limited due to regulatory constraints and low investor awareness.

Commercial Banks. Commercial banks are currently the largest institutional investors in Uzbekistan. They play a dominant role in financial intermediation and investment activities, reflecting the bank-centered nature of the country's financial system.

Challenges Limiting Institutional Investors. Despite the potential benefits of institutional investors, several challenges limit their development in Uzbekistan.

The main barriers include:

- underdeveloped capital markets
- limited availability of financial instruments
- regulatory constraints
- low financial literacy among the population
- insufficient corporate transparency
- weak corporate governance practices

These factors reduce investor confidence and limit the growth of institutional investment.

Policy Recommendations for Strengthening Institutional Investors. *Development of Capital Markets.* Developing capital markets is essential for increasing the role of institutional investors. Several reforms are necessary, including expanding corporate bond markets, increasing the number of companies listed on the stock exchange, improving market infrastructure, and digitalizing trading systems.

Pension System Reform. Reforming the pension system could significantly increase institutional investment capacity. Key reforms include introducing private pension funds, allowing diversified investment portfolios, and strengthening asset management regulations.

Strengthening Insurance Investment Activity. Insurance companies should be encouraged to expand their investment activities. This can be achieved by allowing broader asset allocation, developing long-term securities, and improving risk management frameworks.

Improving the Legal and Regulatory Framework. A strong legal environment is necessary for the development of institutional investors. Important reforms include strengthening investor protection laws, improving transparency requirements, enhancing corporate governance standards, and developing financial disclosure systems.

Increasing Foreign Institutional Investment. Attracting foreign institutional investors can significantly improve market development. This requires liberalizing capital markets, simplifying foreign investor access procedures, improving national credit ratings, and maintaining macroeconomic stability.

Institutional investors play a critical role in ensuring financial market stability and supporting sustainable economic growth. In Uzbekistan, their participation remains limited due to structural and regulatory challenges. Strengthening capital market

infrastructure, reforming pension and insurance systems, and improving the regulatory environment will significantly enhance the role of institutional investors.

The development of institutional investors will contribute to deeper financial markets, increased investment activity, improved corporate governance, and greater financial stability in Uzbekistan.

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MOLIYA BOZORI BARQARORLIGINI TA'MINLASHDA YASHIRIN IQTISODIYOT BILAN KURASHISH JIHLTLARI

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Moliya bozori har qanday mamlakat iqtisodiyotining muhim tarkibiy qismi hisoblanadi. Uning barqarorligi iqtisodiy o'sish, investitsion faoliyatni rivojlantirish va makroiqtisodiy muvozanatni ta'minlashda muhim rol o'ynaydi. Biroq moliya bozori samarali faoliyat yuritishi uchun iqtisodiy jarayonlarning shaffofligi muhim ahamiyatga ega. Shu nuqtai nazardan, yashirin iqtisodiyotning mavjudligi moliya bozori barqarorligiga salbiy ta'sir ko'rsatadigan asosiy omillardan biri hisoblanadi. Yashirin iqtisodiyot davlat tomonidan rasmiy hisobga olinmaydigan, soliqqa tortilmaydigan yoki qonunchilik talablariga to'liq rioya qilmagan holda amalga oshiriladigan iqtisodiy faoliyatlar majmuasidir. Ilmiy adabiyotlarda yashirin iqtisodiyot tushunchasi turli olimlar tomonidan turlicha talqin qilingan. Jumladan, iqtisodchi olim **Friedrich Schneider**⁴⁵ yashirin iqtisodiyotni rasmiy statistika va soliq tizimidan yashirilgan iqtisodiy faoliyat sifatida ta'riflaydi. Uning tadqiqotlariga ko'ra, yashirin iqtisodiyot hajmi yuqori bo'lgan mamlakatlarda davlat moliyaviy tizimining samaradorligi pasayadi, chunki iqtisodiy operatsiyalarning muhim qismi rasmiy nazoratdan tashqarida amalga oshiriladi. Shuningdek, iqtisodchi **Edgar Feige**⁴⁶ yashirin iqtisodiyotni iqtisodiy faoliyatning rasmiy hisobotlardan yashirilgan qismi sifatida izohlaydi va u davlat fiskal siyosatining samaradorligiga jiddiy ta'sir ko'rsatishini ta'kidlaydi.

Yashirin iqtisodiyotning paydo bo'lishi va rivojlanishiga bir qator iqtisodiy va institutsional omillar sabab bo'ladi. Ularga yuqori soliq yuklamasi, davlat nazoratining

⁴⁵ Friedrich Schneider. *Shadow Economies Around the World: What Did We Learn Over the Last 20 Years?* — International Monetary Fund Working Paper, 2012.

⁴⁶ Feige E. *The Underground Economy and the Measurement of GDP.*