

**MINISTRY OF HIGHER AND SECONDARY SPECIALIZED
EDUCATION OF THE REPUBLIC OF UZBEKISTAN**

TASHKENT FINANCIAL INSTITUTE

DEPARTMENT OF FINANCE

MASTER'S DISSERTATION

**INTERNATIONAL FINANCIAL MARKETS AND THEIR
DEVELOPMENT FEATURES**

O'LMASOV JONIBEK

Scientific adviser:

K.Karimova

TASHKENT-2017

.OUTLINE

	INTRODUCTION.....	3
CHAPTER I	INTERNATIONAL FINANCIAL MARKETS AND THEIR IMPORTANT ROLE IN DEVELOPMENT OF ECONOMY IN THE WORLD.....	8
1.1	INTERNATIONAL FINANCIAL MARKETS AND FINANCIAL INSTITUTIONS AS CRUCIAL SEGMENT OF FINANCIAL SYSTEM.....	8
1.2	TYPES OF INTERNATIONAL FINANCIAL MARKETS AND THEIR PARTICIPANTS.....	16
1.3	THE ROLE OF REGULATON REFORMS FOR INTERNATIONAL FINANCIAL MARKETS AFTER THE FINANCIAL INSTABILITY.....	26
	<i>Summary for Chapter I.....</i>	<i>37</i>
CHAPTER II	ANALYSIS OF DEVELOPMENT FEATURES IN THE INTERNATIONAL FINANCIAL MARKETS.....	39
2.1	LIQUIDITY ANALYSIS IN INTERNATIONAL FINANCIAL MARKETS.....	39
2.2	ANALYSIS OF FINANCIAL MARKETS IN ADVANCED ECONOMIES.....	48
2.3	ANALYSIS OF FINANCIAL MARKET IN EMERGING AND DEVELOPING COUNTRIES.....	58
	<i>Summary for Chapter II.....</i>	<i>68</i>
CHAPTER III	POSSIBLE METHODS IN PROVIDING STABLE DEVELOPMENT OF FINANCIAL MARKET IN UZBEKISTAN.....	70
3.1	IMPACTS OF GLOBAL FINANCIAL CRISIS TO FINANCIAL MARKET OF UZBEKISTAN.....	70
3.2	CONDUCTING REFORMS FOR STABLE DEVELOPMENT FINANCIALMARKETIN UZBEKISTAN.....	78
	<i>Summary for Chapter III.....</i>	<i>85</i>
	CONCLUSION.....	87
	BIBLIOGRAPHY.....	90

INTRODUCTION

The actuality of the theme:during the financial crisis, regulating financial markets and restricting the risky operation in these markets should be important for each country. Therefore, analyzing international financial markets and their development features can be beneficial for us in not making mistakes which were made in 2007 in further financial development in the world.

As our President ShavkatMirziyoyev said that: Financial institutions are key participants in financial markets and they can identify the next development of financial market and external affairs and investment should be coordinated in the economy”¹ we know that, financial instability started in 2007 when head shot companies of the world commenced to go down because of low rate of issued stocks in the international financial markets. Most of economics suggest that the major cause behind this problem was subprime mortgages and unpaid credits for banks. On the other hand, some other reasons for the rush in the economy of the world should be also taken into consideration. For example, subprime mortgages came from instable operations in the international financial markets. To be more precise, once the demand for mortgages rose dramatically in the market, all members of the market ranging from investment companies to banks started to go into speculation. Banks began to sell the shares of the mortgage to investment banks through brokers in the international markets which imposed to rise the price and interest rate of mortgages in the country. After that, the demand for that type of financial asset rose up to the peak that banks became greedy and they commenced to give mortgages to all types of families, they wanted to sell the shares and gain more marginal profit by giving credits for clients who were not as responsible as to be supposed. Therefore, the circulation continued till the boom in the market. Once, families who were not feeling responsibility in paying the interest rate of the credit, they decided to give back the house in return for their mortgages for banks. As the result of the situation,

¹Mirziyoyev Sh.M: “Tanqidiy tahlil, qat’iy tartib-intizom va shaxsiy javobgarlik-har bir rahbar faoliyatining kundalik qoidasi bo’lishi kerak” –T: “O’zbekiston”, 2017, 30p

most of the families did the same activities which led to decrease of prices of houses in the USA. In addition, investors also did not sell the shares of mortgages because of less demand in the market and then people did not borrow credit from banks, because the cost offered by the banks was a bit higher than those of natural price of houses in the market which meant that it is preferable for citizens to buy new house rather than take mortgage from the bank. Moreover, after the low prices in the mortgages, the volatility of the financial markets rose significantly: investors started to panic and they decided to move their financial assets from the USA and relocate them, most of investment companies holding shares of mortgages failed to sell them because of low price and low demand. In this case, the financial crisis began to occur in the world and then it turned into economic crisis which still exists in the world.

Subject and object of the research: this study shows most of the objects and subjects in reforming the financial market in not only Uzbekistan, but also in the world. We can say that the subjects of the research are international financial markets and stock exchange of Uzbekistan and the object of the research are the development features and financial operations in the financial markets

The purpose of research: there are a lot of purposes of this research in terms of important features of international financial markets. The main ones are all related to the regulatory framework of financial markets and the effects of policy rates in the changes of international financial markets. On the other hand, while focusing on the international financial markets, it is highly preferable to highlight the changes in the financial market of Uzbekistan as well.

Objectives of research: there are a lot of objectives of this research as follows:

- Focusing on financial institutions as the crucial part of the international financial markets;
- Reminding types of both international financial markets and their participants;
- Setting some reforms for international financial markets and the financial instability;
- Analyzing liquidity of international financial markets;

- Analyzing advanced economies' financial markets;
- Analyzing emerging and developed economies' financial markets;
- Outlining of influences of global financial crisis to financial market of Uzbekistan;
- Offering some measurements for stability of financial market in Uzbekistan.

Scientific achievement of the research: this research offers a lot of academic news for the stimulation of the international financial markets and to develop their important features. Moreover, the scientific success of the research consists of two ways:

- Scientific achievement in international financial markets;
- Scientific achievement in financial market of Uzbekistan.

Talking about achievement in the international financial market, we can say that the main effect in the international financial market and their development feature is regulatory framework. To be more precise, some new regulations and deregulations in the sphere of politics or economy may lead to the dramatic shift in the development of international financial markets in the world. The brief example can be policy rates in the advanced economies and the rate of policy is negatively correlated with the economic growth as well as financial rise of the country. Therefore, deregulation and all possible effects of regulatory reforms should be eradicated from the government in order not to affect negatively the financial market.

On the other hand, the academic news of this research in terms of Uzbek financial market is that, privatization investment funds and their role in the financial market should be strengthened. The research has showed that in the financial market of Uzbekistan, market participants always worry about their investments in the certain types of stocks and most of them are not familiar with the process of taking a risk and diversifying the portfolio in different spheres. To be more precise, Uzbekistan is developing country and boom in stimulation the financial market can lead to most of the misunderstandings and therefore investment funds can come to the market in order to manage efficiently the cash flows or investments of the market participants by enlarging the working process of the financial market in

Uzbekistan. This way can impose the rest of real sectors to be interested in financial market by operating financial agreements and some other operations. As we know that the most active participants of financial market in Uzbekistan are banks and establishing the reforms for investment funds can lead to stimulating the market by attracting other part of sectors in taking part in financial market operations.

Analyze of references for the research: a great number of references have been used in this research. For example, theory and evidence imply that better developed financial systems ease external financing constraints facing firms, which illuminates one mechanism through which financial development influences economic growth (R.Levine, 2005). On the other hand, some research materials Uzbek scientists are E.D.Alimardonov, M.B.Sultonboeva, S.A.Abduvaliev.who offer some possible solutions for the development of financial market in Uzbekistan and they show potential effect of financial crisis to international financial market. Moreover, Ulug'bekKhalikovwho has proven the possible "picture" of financial market in Uzbekistan and some statistical figures for stock exchange in Uzbekistan and current situation in the market and its development features. Furthermore, some foreign scientists, FrededricS.Mishkin, Stanley G. Eakingswho emphasize on the functions of financial markets and institutions and their role in the stimulation of international financial market. In addition, some reports are also used in this research in which possible economic outlooks are given in various years from 2015 till present time. In those reports, most of experts suggest possible solutions for international financial markets' development and some statistics are also illustrated in those reports. ²

Methods of research: there are so many important aspects of methods have been used in this research. Most of them are scientific abstraction, induction and

²E.D.Alimardonov, M.B.Sultonboyeva, S,A,Abdulaev: Global moliyaviy-iqtisodiyinqirozsharoitidamoliyabozoribarqarorliginita'minlash: nazariy-konseptualvaamaliyjihatlar.Akademnashr, Toshkent, 2012, P.299; UlugbekKhaliqov: "Role of stock exchange in economic development of Uzbekistan", January 19, 2017, P.14; Financial markets and institutions, Frederic S. Mishkin, Stanley G. Eakings, seventh edition, P 613; "world economic prospects" (United Nations publication, Sales No. E.16.II.C.2), released in January 2016; "Global financial development report" 2015 International Bank for Reconstruction and Development / The World Bank 1818 H Street NW, Washington, DC 20433; report on Global financial markets liquidity study of PWC August, 2015; World Economic Outlook: "too slow for too long" April 2016, International Monetary Fund Publication Services P.O. Box 92780, Washington, DC 20090, U.S.A.

deduction, comparative analysis, structural analysis. These methods help us to identify the main key element in developing of international financial markets and stimulate that important element in terms of analyzing and finding new methods for the development of the international financial market.

Scientific and Practical value: scientific value of the research is to determine the development feature of international financial markets and analyzing possible effects of policy rates and some market regulations to the international financial markets. Furthermore, practical value of the research is to implement some reforms in the regulatory framework in order to stimulate the international financial markets all over the globe. There are some practical preferences for stabilization the international financial markets. For example, countries should sign some international agreement concerning for eradication possible effects which are causing negatively for the international financial markets. In this case, most of the areas should be together for performing positive solutions for international financial markets. Therefore, practical value of the research is enhancing reforms and avoiding some difficulties in performing financial operations in the financial markets.

CHAPTER I. INTERNATIONAL FINANCIAL MARKETS AND THEIR IMPORTANT ROLE IN DEVELOPMENT OF ECONOMY IN THE WORLD

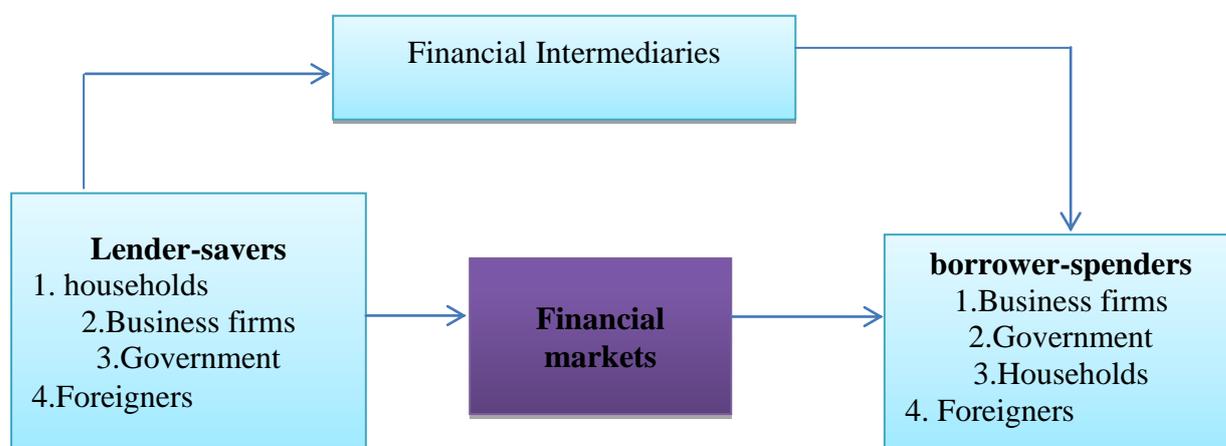
1.1. International financial markets and financial institutions as crucial segment of financial system

The International Financial Market is the place where financial wealth is traded between individuals (and between countries). It can be seen as a wide set of rules and institutions where assets are traded between agents in surplus. Microeconomic rules deal not only with individuals (single money savers, professional agents, and companies) but also with the market itself and its microstructure. Macroeconomic governance rules deal with the market as a whole.

At a macroeconomic level, governance is important for the financial market in order to define every single rule of the trading process the stock exchange or the Over The Counter(OTC) trades to those which define who can join the market. Moreover, great importance is given to the market microstructure, where microstructure is understood as the set of rules that makes and defines the asset exchange price. This is a main point in allowing the market to function properly. The liquidity/thickness/depth of the market depends on the price formation rules according to which the asset is traded off. At a microeconomic level, the steps to trade assets on the financial market are: listing, trading, and post-trading.

Financial markets perform the essential economic function of channeling funds from households, firms, and governments that have saved surplus funds by spending less than their income to those that have a shortage of funds because they wish to spend more than their income. This function is shown schematically in Picture-1.1. Those who have saved and are lending funds, the lender-savers, are at the left, and those who must borrow funds to finance their spending, the borrower-spenders, are at the right. The principal lender-savers are households, but business enterprises and the government (particularly state and local government), as well as foreigners and their governments, sometimes also find themselves with excess funds and so lend them out. The most important borrower-spenders are businesses and the

government (particularly the federal government), but households and foreigners also borrow to finance their purchases of cars, furniture, and houses. The arrows show that funds flow from lender-savers to borrower-spenders via two routes.



Picture 1.1. Flows of financial resources through financial markets³

As we see from the figure-1, flow of funds is always passed through financial system of the economy. Therefore, development of financial system in the country can lead to the enhancement of private and government sector of the country. The latter comprises clearing, settlement, and custody. From the market insiders' point of view, each of these steps needs to be defined in order to conclude the exchange at a time and price previously defined. Each step has its own rules that allow those who operate in the financial market to establish their own strategy with respect to their specific expectations. The traded asset returns are linked to another class of microeconomic governance rules are those which state, for instance, who can operate in the market and how. Microeconomic rules also concern the manner in which the institutions themselves operate in the market. Macroeconomic rules of the financial market have a different task and are linked to the broad-spectrum policies of the market. These can indicate the required market institution, the market structure and furthermore its aims and its own monetary and fiscal policies. All these characteristics make the market unique with respect to the economy in which it works. One of the features of this uniqueness is market transparency. This characteristic is defined on the basis of (governance) rules,

³ Financial markets and institutions, Frederic S. Mishkin, Stanley G. Eakings, seventh edition, P 613

institutions, agents, and policies connected to it. The more people know how to complete the trading asset process, the more a market is transparent. In this manner, expectations become heterogeneous for individuals/agents and, at the same time, they reflect the information at hand. This leads to the definition of expectations. This leads to defining the sell/buy strategies on the basis of the role that, for instance, inflation will have in the subsequent period $t+1$ given the policies/rules defined in t . This kind of expectation may vary depending on the discretion that exists in defining the rules, not only at a macroeconomic level but also at a microeconomic one. The second objective is microeconomic. Agents formulate their expectations to predict asset price variations in order to determine the asset returns. This point leads back to the liquidity concept previously introduced. The different level of liquidity in the trading process determines a different formulation of expectations. In the same way, the diverse discretion utilised in setting macroeconomic rules determines a different formulation of Macroeconomic rules, as previously defined, are connected to different monetary and fiscal policies. The financial market is subjected to policies that depend mostly on the regulating institutions. At the same time, institutions are responsible for defining rules. Individuals who operate in one market have to follow these rules but, at the same time, their decision is based on the rules that a given market has set itself. The financial market examined in this manner is an extremely complex system in which rules, individuals and institutions interact. This complexity increases even more in time and space (in the case of international financial markets). In time, financial markets cover an increasingly important role in the financial saving mediation of agents at an international as well as at a national level. In space, agents have instruments at their disposal that have become increasingly more complicated and specific. These instruments are utilised through the markets of reference (stock market, bond market, currency market, derivatives market, commodities market, money market) that are a fundamental part of the financial market. Each market has its own characteristics that in turn define the contexts in which agents operate on the basis of the risk associated to them.

Other economists strongly believe in the importance of the financial system for economic growth. They address the issue of what the optimal financial system should look like. Overall, the notion seems to develop that the optimal financial system, in combination with a well-developed legal system, should incorporate elements of both direct, market and indirect, bank-based finance. A well-developed financial system should improve the efficiency of financing decisions, favouring a better allocation of resources and thereby economic growth.

Both market and bank-based financial systems have their own comparative advantages. For some industries at certain times of their development, market-based financing is advantageous. For example, financing through stock markets is optimal for industries where there are continuous technological advances and where there is little consensus on how firms should be managed. The stock market checks whether the manager's view of the firm's production is a sensible one.

On the other hand, the importance of international financial markets in the economy can be seen by the financial institutions rather than only government authorities.

Role as a Monitor of Publicly Traded Firms. In this case, financial institutions also serve as monitors of publicly traded firms. Because insurance companies, pension funds, and some mutual funds are major investors in stocks, they can have some influence over the management of publicly traded firms. In recent years, many large institutional investors have publicly criticized the management of specific firms, which has resulted in corporate restructuring or even the firing of executives in some cases. Thus, institutional investors not only provide financial support to companies but exercise some degree of corporate control over them. By serving as activist shareholders, they can help ensure that managers of publicly held corporations are making decisions that are in the best interests of the shareholders.

On the other hand, comparison of roles among financial institutions can be seen in the initial stage in transforming the stimulation of the economy in the world. In this case, cash flows of financial institution can be gone through the deficit units and it can recycle through the economy. Therefore, financial institutions are favor of

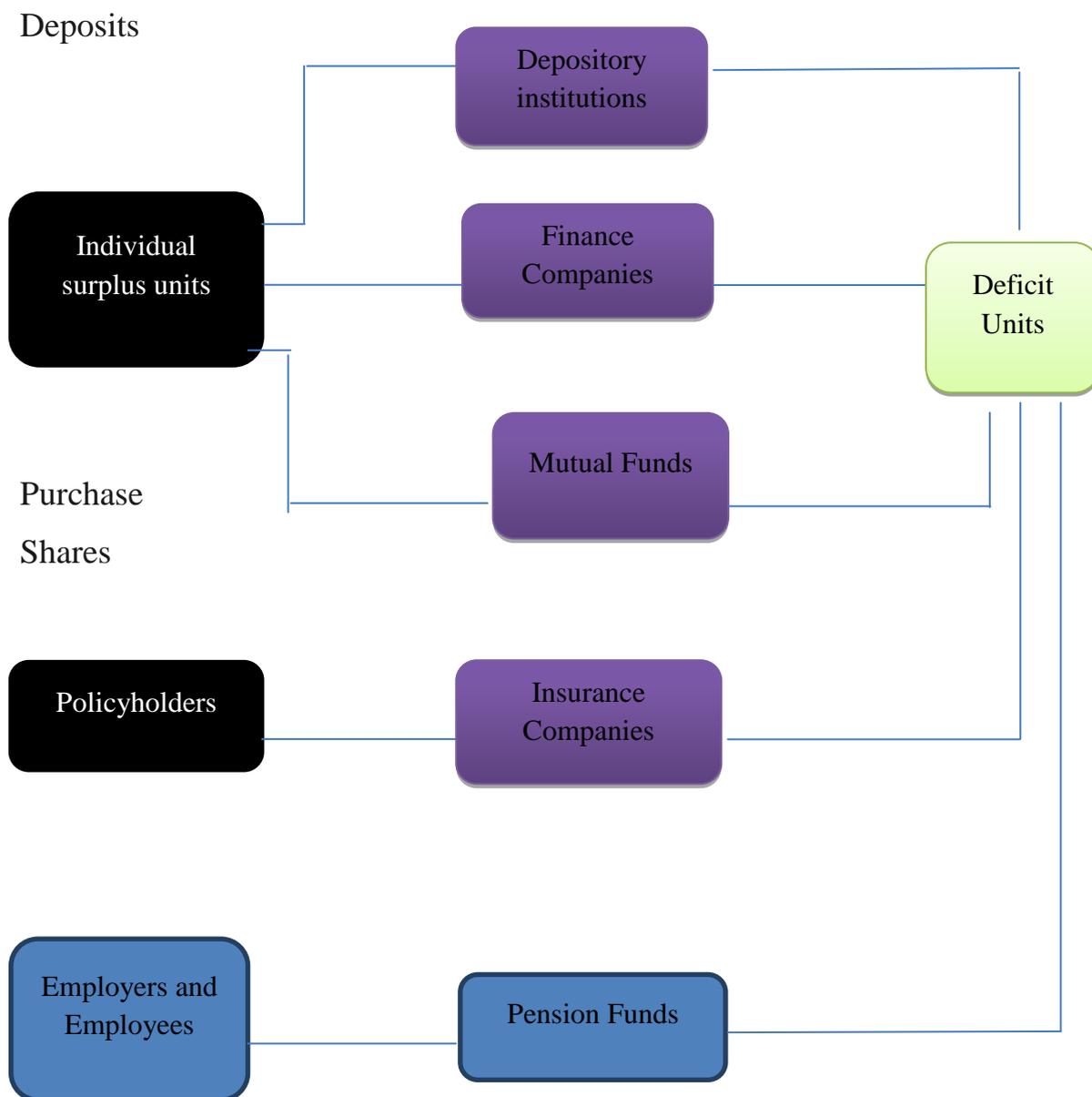
the financial system, these financial institutions are willing to get the stable position in the financial market through developing the transparency of the international financial markets.

The role of financial institutions in facilitating the flow of funds from individual surplus units to deficit units can be seen in figure-2. Surplus units are shown on the left side of exhibit, and deficit units are shown on the right side. Three different flows of funds from surplus units to deficit units are shown in exhibition. One set of flows represents deposits from surplus units that are transformed by depository institutions into loans for deficit units. A second set of flows represent purchases of securities (commercial papers) issued by finance companies that are transformed into finance company loans for deficit units. A third set of flows reflects the purchases of shares issued by mutual funds, which are used by the mutual funds to purchase debt and equity securities of deficit units.

The deficit units also receive funding from insurance companies and pension funds. Because insurance companies and pension funds purchase massive amounts of stocks and bonds, they finance much of the expenditures made by large deficit units, such as corporations and government agencies.

Securities firms are not shown in picture-1.2, but they play a very important role in facilitating the flow of funds. Many of the transactions between the financial institutions and deficit units are executed by securities firms. Furthermore, some funds flow directly from surplus units to deficit units as a result of security transactions, with securities firms serving as brokers. Depository institutions are always in active position in the financial market and they want to improve the working process of financial markets by attracting foreign investments in the financial market. Moreover, financial institutions such as banks are also important figure in the international financial market, they are speculators in the financial market and always try to search for active income which comes from speculative operations rather than from passive incomes which come from passive position in the financial market.

In this case, policy holders are also leading to the deficit unit by using insurance companies. To be more precise, their premiums are oriented to the insurance companies which can lead to the deficit unit in a long run position:



Picture-1.2. Comparison of roles among financial institution in the stimulation the financial system⁴

Overview of financial institutions in the stimulation of the economy. In this case, the important feature of financial institutions can be seen in the functions of them which can obviously show their crucial aspects in the stimulation of the economy. Therefore, in order to show the importance of the international financial markets in the economy, it is

⁴ Financial Markets and Institutions, Jeff Madura, sixth edition, P 719

very momentous to illustrate the essential objectives for participants of financial institutions in the financial markets.

We can summarize the functions and objectives of financial institutions through the main sources and uses of funds for each type of financial institutions. This importance is illustrated in the Table-1.3:

Table-1.3

Summary of financial institutions sources and uses of funds⁵

Financial institutions	Main sources of funds	Main uses of funds
Commercial banks	Deposits from households, business, and government agencies	Purchases of government and corporate securities; loans to businesses and households
Savings institutions	Deposits from households, businesses and government agencies	Purchases of government and corporate securities; mortgages and other loans to household; some loans to businesses
Credit unions	Deposits from credit union members	Loans to credit union members
Finance companies	Securities sold to households and business	Loans to households and business
Mutual funds	Shares sold to households, businesses, and government agencies	Purchases of long-term government and corporate securities
Money market funds	Shares solid to households, businesses, and government agencies	Purchases of short-term government and corporate securities
Insurance companies	Insurance premiums and earnings from investments	Purchases of long-term government and corporate securities
Pension funds	Employer/employee contributions	Purchases of long-term government and corporate securities

Taking into consideration the role of international financial markets and financial institutions as the segment of the world economy, followings can be offered

⁵ Financial Markets and Institutions, Jeff Madura, sixth edition, P 719

as the “little summary” about the overview of financial institutions in the international financial markets:

- Financial markets facilitate the transfer of funds from the surplus units to deficit unit. Because, funding needs vary among deficit units, various financial markets have been established. The primary market allows for issuance of new securities, while the secondary market allows for the sale of existing securities. Money markets facilitate the sale of short-term securities, while capital markets facilitate the sale of long-term securities;
- The valuation of a security represents the present value of future cash flows that it is expected to generate, new information that indicates a change in expected cash flows or the degree of uncertainty affects the prices of securities in financial markets. Investors monitor economic conditions and firm-specific conditions that may have an impact on expected cash flows or the degree of uncertainty surrounding securities issued by that firm;
- Depository and nondepository institutions help to finance the needs of deficit units. depository institutions can serve as effective intermediaries within financial markets because they have greater information on possible sources and uses of funds, they are capable of assessing the creditworthiness of borrowers, and they can repackage deposited funds in size and maturities desired by borrowers;
- The main depository institutions are commercial banks, saving institutions, and credit unions. The main nondepository institutions are finance companies, mutual funds pension funds, and insurance companies. Many financial institutions have been consolidated into financial conglomerates, where they serve as subsidiaries of the conglomerate while conducting their specialized services. Thus, some financial conglomerates are able to provide all types of financial services.

1.2. Types of international financial markets

It is highly noticeable that there are a lot of types of international financial markets in the world. Each of them plays crucial role in the development of world economy. We can give variety kinds of instances for this opinion. For instance, figure for debt and equity markets can illustrate the circumstances of cash flow in the market of those countries or the macroeconomic indicators which would be beneficial for the decision of the investors for that economy. On the other hand, numbers for Bond market is also essential for the prosperity of the economy. Because, due to the statistics of bond market, one can anticipate the future prediction and future model of that country in terms of credits and government bonds. For instance, when government debt is high than 60% of the GPD in that country, so it means that the economy is overdebted and main sources of financing is funds of people and this situation has both sides such as negative and positive. Coming to the negative side, we can conclude that the national economy is overcredited and most of the money which government holds for investment program. In addition, turning to the positive side of government debt is that ordinary people can get credit from the banks in a lower rate and it can lead to the high level of manufacturing process in the society. Moreover, derivatives are the most popular and efficient types of securities in the financial markets. Derivatives such as swaps, options, futures and forwards can be supportive for not only investors but also for the rest participants of financial markets in the world. Because, derivatives can stimulate the trading system by making it easier for businessmen and other members of the market.

On the other hand, primary and secondary markets put the unbelievable step towards financial markets in the world. Because, trading turnover of the primary and secondary market is one of the highest in financial market. Therefore, listing securities are accepted in the primary markets and the rest of them can be included in the secondary market where sold securities in the primary market can be resold and trade is not listed and it is not announced legally in the daily press of the country.

It is noteworthy that until reaching a complex structure and gaining high-level of experience are the paramount reasons behind the development of the international financial market. Therefore, getting shaped in the today's structure, international financial market has passed a long way until today's appearance. This evolution consists of four stages and each of these stages has its own unforgettable role in the stimulation and development of international financial market. These fore stages are accounted as the primary causes behind the evolvement of international financial markets in the world economy which are the important part of world economy at the time being.

Table-1.4

Structure of international financial market and its evolution⁶

Stages	Years	Changes in the structure of international financial markets
The first	1860s	development of international trade and establishment of international currency exchange
The second	1950s	Development of credit operations
	1960s	Establishment of credit market
The third	1970s	Promotion of long-term capital market. Free trade in national stock exchange
	1980s	Improvement of transnational banks and companies.
The fourth	1990s	Development of segments of international stock exchange
	2000s	Development of international derivatives market

It is clearly seen from the table-1.4 that at the last stage of international financial markets evolution, segments and operations regarded to the derivative developed in the high rate. As the result of their negative correlation, most of the countries in the world suffered from the global financial and economic crisis. Due to

⁶E.D.Alimardonov, M.B.Sultonboyeva, S,A,Abdulaev: "Global moliyaviy-iqtisodiyinqirozsharoitidamoliyabozoribarqarorliginita'minlash: nazariy-konseptualvaamaliyijihatlar".T:"Akademnashr", 2012, P.299

the downward of the most popular indexes in international financial market, the unemployment rate suddenly rose in the highest point ever in the world.

1. Debt and equity markets. A firm or an individual can obtain funds in a financial market in two ways. The most common method is to issue a debt instrument, such as a bond or a mortgage, which is a contractual agreement by the borrower to pay the holder of the instrument fixed dollar amounts at regular intervals (interest and principal payments) until a specified date (the maturity date), when a final payment is made. The maturity of a debt instrument is the number of years (term) until that instrument's expiration date. A debt instrument is short-term if its maturity is less than a year and long-term if its maturity is 10 years or longer. Debt instruments with a maturity between one and 10 years are said to be intermediate-term. The second method of raising funds is by issuing equities, such as common stock, which are claims to share in the net income (income after expenses and taxes) and the assets of a business. If you own one share of common stock in a company that has issued one million shares, you are entitled to 1 one-millionth of the firm's net income and 1 one-millionth of the firm's assets. Equities often make periodic payments (dividends) to their holders and are considered long-term securities because they have no maturity date. In addition, owning stock means that you own a portion of the firm and thus have the right to vote on issues important to the firm and to elect its directors. The main disadvantage of owning a corporation's equities rather than its debt is that an equity holder is a residual claimant; that is, the corporation must pay all its debt holders before it pays its equity holders. The advantage of holding equities is that equity holders benefit directly from any increases in the corporation's profitability or asset value because equities confer ownership rights on the equity holders. Debt holders do not share in this benefit, because their dollar payments are fixed.

The Stock Market is a series of exchanges where successful corporations go to raise large amounts of cash to expand. The capital market aids raising of capital on a long-term basis, generally over 1 year. It consists of a primary and a secondary

market and can be divided into two main subgroups – Bond market and Stock market.

The Bond market provides financing by accumulating debt through bond issuance and bond trading

The Stock market provides financing by sharing the ownership of a company through stocks issuing and trading

Stocks are shares of ownership of a public corporation that are sold to investors through broker dealers. The investors profit when the companies increase their earnings, which keeps the U.S. economy growing. It's easy to buy stocks, but takes a lot of knowledge to buy stocks in the right company.

To a lot of people, the Dow is the stock market. However, the Dow, which is the nickname for the Dow Jones Industrial Average, is just one way of tracking the performance of a group of stocks. There is also the Dow Jones Transportation Average and the Dow Jones Utilities Average. Many investors ignore the Dow, and instead focus on the S&P 500 or other indices to track the progress of the stock market. The stocks that make up these averages are traded on the world's stock exchanges, two of which include the New York Stock Exchange, the NASDAQ.

Mutual funds give you the ability to buy a lot of stocks at once. In a way, this makes them an easier tool to invest in than individual stocks. By reducing stock market volatility, they have also had a calming effect on the U.S. economy. Despite their benefits, you still need to learn how to select a good mutual fund.

The Bond Market is where organizations go to obtain very large loans. Generally, when stock prices go up, bond prices go down. However, there are many different types of bonds, including Treasury Bonds, corporate bonds, and municipal bonds. Bonds also provide some of the liquidity that keeps the U.S. economy functioning smoothly.

It's important to understand the relationship between Treasury bonds and Treasury bond yields. Basically, when Treasury bond values go down, the yields go up to compensate. When Treasury yields rise, so do mortgage interest rates. Even worse, when Treasury values decline, so does the value of the dollar.

This makes import prices rise, which can trigger inflation. Treasury yields can also predict the future -- an inverted yield curve usually heralds a recession.

The Commodities Market is where companies offset their risk of purchasing or selling natural resources for future use. Since the prices of things like oil, corn and gold are so volatile, companies can lock in a known price today.

Since these exchanges are public, many investors also trade in commodities for profit only, with no intention of purchasing large quantities of pork bellies.

Oil is the most important commodity in the U.S. economy. It is used for transportation, industrial products, plastics, heating and electricity generation. When oil prices rise, you'll see the effect in gas prices about a week later. If oil and gas prices stay high, you'll see the impact on food prices in about six weeks.

The price of oil is determined in the commodities futures market. What are futures? They are a way to pay for something today that is delivered tomorrow. This helps to remove some of the volatility in the U.S. economy by allowing businesses to control future costs of the critical commodities they use every day.

However, futures also increase a trader's leverage by allowing him or her to borrow the money to purchase the commodity. This leverage can create outsize gains, if traders guess right. It also magnifies the losses if traders guess wrong. If enough traders guess wrong, it can have a huge impact on the U.S. economy, actually increasing overall volatility. Commodities trading was responsible for record-high oil prices in 2008 and 2011, which resulted in food riots and even the Arab Spring.

Another important commodity is gold. It's bought as a hedge against inflation. Gold prices also go up when there is a lot of economic uncertainty in the world. In the past, every dollar could be traded in for its value in gold. However, once the U.S. went off the gold standard, it lost this relationship to money. Nevertheless, this history means that many people still look at gold as safer alternative to cash or currency.⁷

⁷[www.investopedia.com/types of financial markets](http://www.investopedia.com/types-of-financial-markets)

Derivatives are complicated financial products that derive their value from underlying stocks and bonds. They are primarily used by sophisticated investors and hedge funds to magnify their potential gains. In 2007, hedge funds increased in popularity due to their supposed higher returns for high-end investors. Since hedge funds invest heavily in futures, some argued they decreased the volatility of the stock market and therefore the U.S. economy. However, hedge fund investments in subprime mortgages and other derivatives caused the 2008 global financial crisis. Even before this, hedge funds had demonstrated their risky nature. In 1997, the world's largest hedge fund at the time, Long Term Capital Management, practically brought down the U.S. economy.

Forex Trading is when currencies are bought and sold. More than \$5.3 trillion is traded per day, and 87% involves the U.S. dollar. Nearly one-fourth of the trades are done by banks for their customers, to reduce the volatility of doing business overseas. Hedge funds are responsible for another 11%, and some of it is speculative. This market affects exchange rates, and therefore the value of the dollar and other currencies.

2. *Primary and secondary markets.* A primary market, or the so-called “new issue market”, is where securities such as shares and bonds are being created and traded for the first time without using any intermediary such as an exchange in the process. When a private company decides to become a publicly-traded entity, it issues and sells its stocks at a so-called Initial Public Offering. IPOs are a strictly regulated process which is facilitated by investment banks or finance syndicates of securities dealers that set a starting price range and then oversee its sale directly to the investors. A primary market is a financial market in which new issues of a security, such as a bond or a stock, are sold to initial buyers by the corporation or government agency borrowing the funds. A secondary market, or the so-called “aftermarket” is the place where investors purchase previously issued securities such as stocks, bonds, futures and options from other investors, rather from issuing companies themselves. The secondary market is where the bulk of exchange trading

occurs and it is what people are talking about when they refer to the “stock market”. It includes the NYSE, Nasdaq and all other major exchanges.

A secondary market is a financial market in which securities that have been previously issued can be resold. The primary markets for securities are not well known to the public because the selling of securities to initial buyers often takes place behind closed doors. An important financial institution that assists in the initial sale of securities in the primary market is the investment bank. It does this by underwriting securities: It guarantees a price for a corporation’s securities and then sells them to the public. The New York Stock Exchange and NASDAQ (National Association of Securities Dealers Automated Quotation System), in which previously issued stocks are traded, are the best-known examples of secondary markets, although the bond markets, in which previously issued bonds of major corporations and the U.S. government are bought and sold, actually have a larger trading volume. Other examples of secondary markets are foreign exchange markets, futures markets, and options markets. Securities brokers and dealers are crucial to a well-functioning secondary market. Brokers are agents of investors who match buyers with sellers of securities; dealers link buyers and sellers by buying and selling securities at stated prices. When an individual buys a security in the secondary market, the person who has sold the security receives money in exchange for the security, but the corporation that issued the security acquires no new funds. A corporation acquires new funds only when its securities are first sold in the primary market. Nonetheless, secondary markets serve two important functions. First, they make it easier and quicker to sell these financial instruments to raise cash; that is, they make the financial instruments more liquid. The increased liquidity of these instruments then makes them more desirable and thus easier for the issuing firm to sell in the primary market. Second, they determine the price of the security that the issuing firm sells in the primary market. The investors who buy securities in the primary market will pay the issuing corporation no more than the price they think the secondary market will set for this security. The higher the security’s price in the secondary market, the higher the price that the issuing firm will receive for a

new security in the primary market, and hence the greater the amount of financial capital it can raise. Conditions in the secondary market are therefore the most relevant to corporations issuing securities. It is for this reason that books like this one, which deal with financial markets, focus on the behavior of secondary markets rather than primary markets.⁸

3. *Exchanges and Over-the-Counter Markets.* Secondary markets can be organized in two ways. One method is to organize exchanges, where buyers and sellers of securities (or their agents or brokers) meet in one central location to conduct trades. The New York and American Stock Exchanges for stocks and the Chicago Board of Trade for commodities (wheat, corn, silver, and other raw materials) are examples of organized exchanges. The other method of organizing a secondary market is to have an over-the-counter (OTC) market, in which dealers at different locations who have an inventory of securities stand ready to buy and sell securities “over the counter” to anyone who comes to them and is willing to accept their prices. Because over the-counter dealers are in computer contact and know the prices set by one another, the OTC market is very competitive and not very different from a market with an organized exchange. Many common stocks are traded over the counter, although a majority of the largest corporations have their shares traded at organized stock exchanges. The U.S. government bond market, with a larger trading volume than the New York Stock Exchange, by contrast, is set up as an over-the-counter market. Forty or so dealers establish a “market” in these securities by standing ready to buy and sell U.S. government bonds. Other over-the-counter markets include those that trade other types of financial instruments such as negotiable certificates of deposit, federal funds, banker’s acceptances, and foreign exchange. A secondary market, or the so-called “aftermarket” is the place where investors purchase previously issued securities such as stocks, bonds, futures and options from other investors, rather from issuing companies themselves. The secondary market is where the bulk of exchange trading occurs and it is what people are talking about when they refer to the “stock market”. It includes the NYSE,

⁸[www.investopedia.com/terms/types of financial markets](http://www.investopedia.com/terms/types_of_financial_markets)

Nasdaq and all other major exchanges. Some previously issued stocks however are not listed on an exchange, rather traded directly between dealers over the telephone or by computer. These are the so-called over-the-counter traded stocks, or “unlisted stocks”. In general, companies which are traded this way usually don’t meet the requirements for listing on an exchange. Such shares are traded on the Over the Counter Bulletin Board or on the pink sheets and are either offered by companies with a poor credit rating or are penny stocks.

4. *Money and Capital markets* are another way of distinguishing between markets is on the basis of the maturity of the securities traded in each market. The money market is a financial market in which only short-term debt instruments (generally those with original maturity of less than one year) are traded; the capital market is the market in which longer term debt (generally with original maturity of one year or greater) and equity instruments are traded. Money market securities are usually more widely traded than longer-term securities and so tend to be more liquid. In addition, short-term securities have smaller fluctuations in prices than long-term securities, making them safer investments. As a result, corporations and banks actively use the money market to earn interest on surplus funds that they expect to have only temporarily. Capital market securities, such as stocks and long-term bonds, are often held by financial intermediaries such as insurance companies and pension funds.⁹ The money market enables economic units to manage their liquidity positions through lending and borrowing short-term loans, generally under 1 year. It facilitates the interaction between individuals and institutions with temporary surpluses of funds and their counterparts who are experiencing a temporary shortage of funds.

One can borrow money within a quite short period of time via a standard instrument, the so-called “call money”. These are funds borrowed for one day, from 12:00 PM today until 12:00 PM on the next day, after which the loan becomes “on call” and is callable at any time. In some cases, “call money” can be borrowed for a period of up to one week.

⁹ Financial markets and institutions, Frederic S. Mishkin, Stanley G. Eakings, seventh edition, P. 613

Apart from the “call money” market, banks and other financial institutions use the so-called “Interbank market” to borrow funds within a longer period of time, from overnight to several weeks and up to one year. Retail investors and smaller trading parties do not participate on the Interbank market. While some of the trading is performed by banks on account of their clients, most transactions occur in case a bank experiences extra liquidity, a surplus of funds, while another has a shortage of liquidity. Such loans are made at the Interbank rate, which is the rate of interest, charged on short-term loans between banks. An intermediary between the counterparts, called a dealer, announces a bid and an offer rate with the difference between the two representing a spread, or the dealer’s income. The Interbank interest in London is known as LIBOR (London Interbank Offered Rate) and LIBID (London Interbank Bid Rate). Respectively in Paris we have PIBOR, in Frankfurt – FIBOR, in Amsterdam – AIBOR, and Madrid – MIBOR.

Some previously issued stocks however are not listed on an exchange, rather traded directly between dealers over the telephone or by computer. These are the so-called over-the-counter traded stocks, or “unlisted stocks”. In general, companies which are traded this way usually don’t meet the requirements for listing on an exchange. Such shares are traded on the Over the Counter Bulletin Board or on the pink sheets and are either offered by companies with a poor credit rating or are penny stocks.

Foreign exchange market. The foreign exchange market abets the foreign exchange trading. It’s the largest, most liquid market in the world with an average traded value of more than \$5 trillion per day. It includes all of the currencies in the world and any individual, company or country can participate in it. Those contracts that are privately negotiated and traded directly between the two counterparts, without using the services of an intermediary like an exchange. Securities such as forwards, swaps, forward rate agreements, credit derivatives, exotic options and other exotic derivatives are almost always traded this way. These are tailor-made contracts that remain largely unregulated and provide the buyer and the seller with more flexibility in meeting their needs.

Functions of Financial Markets. Financial markets create an open and regulated system for companies to obtain large amounts of financial capital to grow their businesses. This is done through the stock and bond markets. Markets also allow these businesses to offset risk with commodities and foreign exchange futures contracts, as well as other derivatives.

Since the markets are public, they provide an open and transparent way to set prices on everything traded. These prices assume that all available knowledge about everything traded is taken into consideration. This reduces the cost of getting information, because it's already incorporated into the price.

The sheer size of the financial markets provide liquidity. In other words, sellers can easily unload assets whenever they need to raise cash. The size also reduces the cost of doing business, since companies don't have to go far to find a buyer, or someone willing to sell.

1.3. The role of regulaton reforms for international financial markets after the financial instability

Both market and bank-based financial systems have their own comparative advantages. For some industries at certain times of their development, market-based financing is advantageous. For example, financing through stock markets is optimal for industries where there are continuous technological advances and where there is little consensus on how firms should be managed. The stock market checks whether the manager's view of the firm's production is a sensible one. For other industries, bank-based financing is preferable. This holds in particular for industries which face strong information asymmetries. Financing through financial intermediaries is an effective solution to adverse selection and moral hazard problems that exist between lenders and borrowers. Banks in particular have developed expertise to distinguish between good and bad borrowers. Economies that have both well-developed banking sectors and capital markets thus have an advantage. Furthermore, in times of crisis in either system, the other system can perform the function of the famous spare wheel.

The financial system is also particularly important in reallocating capital and thus providing the basis for the continuous restructuring of the economy that is needed to support growth. In countries with a highly developed financial system, we observe that a greater share of investment is allocated to relatively fast growing sectors. When we look back more than one century ago, during the Industrial Revolution, we see that England's financial system did a better job in identifying and funding profitable ventures than other countries in the mid-1800s. This helped England enjoy comparatively greater economic success. The banker and former editor of "The Economist" Walter Bagehot expressed this in 1873 as follows. "In England, however capital runs as surely and instantly where it is most wanted, and where there is most to be made of it, as water runs to find its level".

Nowadays, the lack of a well-developed stock market would be a particularly serious disadvantage for any economy. Equity is essential for the emergence and growth of innovative firms. Today's young innovative high-technology firms will be the main drivers of future structural change essential for maintaining a country's long-term growth potential. The contribution of financial markets in this area is a necessity for maintaining the competitiveness of an economy today given the strongly increased international competition, rapid technological progress and the increased role of innovation for growth performance. Bank-based finance has a special role to play for many companies in need of funds, and thus helps to ensure a well-balanced growth process. The economic literature on "relationship banking" has demonstrated that banks can contribute to alleviating the impact of sudden economic shocks on their clients. Banks stand ready to provide many customers with funds even in adverse circumstances, e.g. when the liquidity of financial markets dries up.

The banking sector also has an essential role to play with respect to the allocation of funds to the most profitable investment opportunities. Banks are, as mentioned before, financial intermediaries that by nature add cost to the allocation of capital. Thus in order for banks to survive in a market economy they need to provide added benefits. It is difficult to compete with the debt securities market, if a

bank loan is of a size where the fixed costs of accessing debt markets become negligible. However, securities markets are not always sufficiently liquid and some, especially small and medium, enterprises cannot cover their liquidity needs via securities markets owing to significant fixed costs of access. An additional benefit of bank-based finance relates to the intrinsic nature of the banking business: some projects cannot be financed directly by the market on account of significant information asymmetries between the borrowers and potential lenders. Banks can bridge this gap thanks to their comparative advantages in the assessment and monitoring of investment projects, which contributes to overcoming information asymmetries.

Financial market integration. The launch of the euro on 1 January 1999 was a historic event. Eleven national currencies were converted into one single currency overnight. Greece became the twelfth EU Member State to adopt the single currency on 1 January 2001. The newly created currency area of the twelve participating European Union Member States has a considerable weight in the world economy. It accounts for around 20% of world GDP and world exports. The successful launch of the euro, which is a key element in the creation of a stable and prosperous Europe, has boosted the integration of financial markets in the euro area. This process of integration in European financial markets coincided with the trends towards globalisation and securitisation. Other factors, among a wide range, which shape the financial system are historically determined characteristics, technological innovations, monetary and fiscal policies and specific legal and accounting systems that differ from country to country.

Evidence of integration can be found, to varying degrees, in all parts of the financial system. The euro area money market is among the most integrated parts of the financial system. The conduct of one common monetary policy in the euro area brought about immediate integration of the unsecured segments of the money market, mainly the interbank market and the short-term derivatives market. The secured segments of the money market, that is the repo market and the markets for short-term securities, are also increasingly integrated, but they still suffer from

underlying problems with the management of collateral. Nonetheless, the outlook is promising. The euro area bond market has also developed rapidly. Notably, the private segments of the euro area bond market have flourished since the introduction of the euro. Probably the most significant development has been the rapid growth in the euro-denominated corporate bond market, which has increased several-fold in size since the launch of the euro and is now characterised by issues of above EUR 1 billion. EMU has also stimulated integration in the stock markets in the euro area, where structural developments have been dominated by a series of high-profile mergers and attempted mergers.

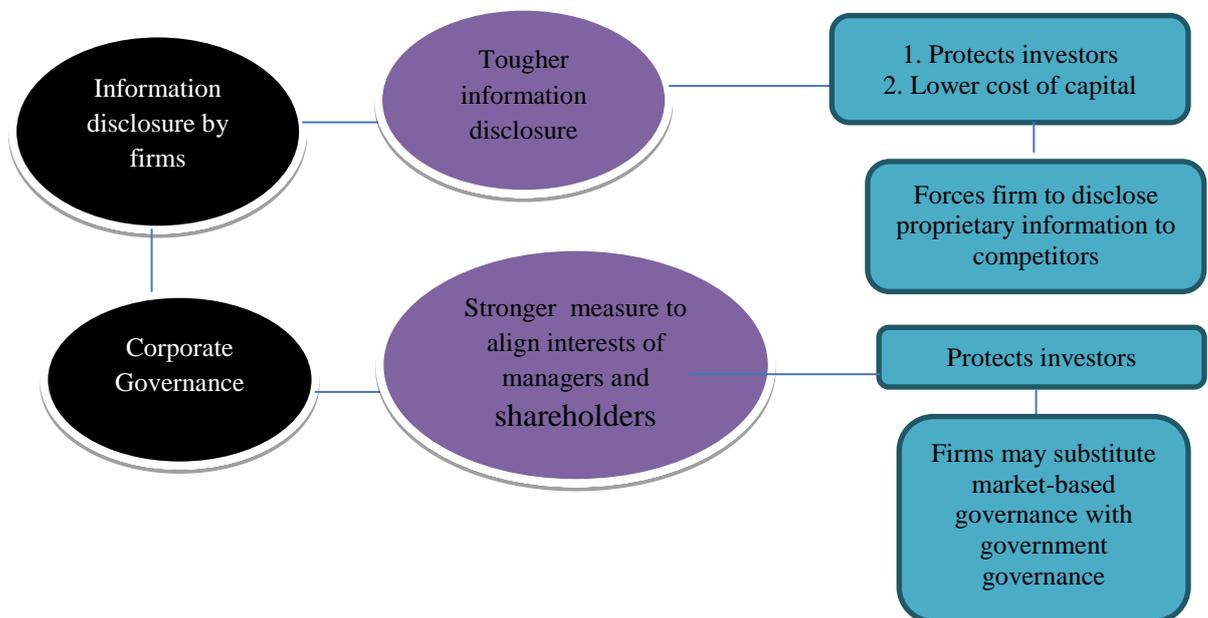
Regulatory framework. The regulatory bodies involved in global financial markets are far too numerous to enumerate here, so the highlight would be selective. Specifically, the role of regulators in financial markets the goals of regulation, especially on an increasingly interconnected financial system are taken into account. In terms of financial market regulation, The Securities and Exchange Commission (SEC) states its mission to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.

Structure of the SEC. The SEC is composed of five commissioners appointed by the President of the United States and confirmed by the Senate. Each commissioner serves a five-year term. The terms are staggered so that each year one commissioner's term ends and a new appointee is added. The President also selects one of the five commissioners to chair the commission. The commissioners meet to assess whether existing regulations are successfully preventing abuses and to revise the regulations as needed. Specific staff members of the SEC may be assigned to develop a proposal for a new regulation to prevent a particular abuse that is occurring. When the commission adopts new regulations, they are distributed to the public for feedback before final approval. Some of the more critical proposals are subject to congressional review before final approval.

Key divisions of the SEC. The SEC has several important divisions that attempt to ensure a fair and orderly stock market. The Division of Corporate Finance reviews the registration statement filed when firm goes public, corporate

filings for annual and quarterly reports, and proxy statements that involve voting for board members or other corporate issues. The Division of Market Regulation requires the orderly disclosure of securities trades by various organizations that facilitate the trading of securities. The Division of Enforcement assesses possible violations of the SEC's regulations and can take action against individuals or firms. An investigation can involve the examination of securities data or transactions; the SEC has the power to obtain information from specific individuals by subpoena. When SEC finds that action is warranted, it may negotiate a settlement with individuals or firms that are cited for violations, file a case against them in federal court, or even work with law enforcement agencies if the violations involve criminal activity. Such actions are normally intended to prevent the violations from continuing and to discourage other individuals or firms from engaging in illegal security activities. Some analyst suggest that the regulation has caused firms to disclose less information to them and to public than before. To ensure that they do not violate Regulation FD, some firms may offer less information so that no parties have an unfair advantage. In particular, smaller firms find it expensive to issue a press release every time they have relevant information. The SEC is reviewing Regulation FD and may alter it so that it still allows for a flow of information from firms, while ensuring that investors receive the information at the same time as analysts. This means, SEC must insist on a stringer set of information disclosure requirements to ensure that investors do not end up buying lemons when they purchase stocks traded on U.S exchanges. This assurance creates confidence in the stock market and encourages broader investor participation in the market. Whenever firms from other countries come to the list of U.S exchange, they find that information disclosure requirements far exceed what they have been accustomed to. The requirements create greater transparency and a more liquid capital market in which there is greater investor participation. If information disclosure requirements become too stringent, firms may be chased away to other regulatory jurisdiction, which would interfere with the SEC's second goal, namely facilitating capital

formation.¹⁰ Thus, an appropriate balance must be maintained. Another aspect of investor protection that is implicit to the SEC’s mission is ensuring effective *corporate governance* so that the well-known divergence of interests between managers and investors does not significantly hurt investors’ interest¹¹. This means companies must have independent directors on corporate boards who look out for interests of investors, besides providing counsel to the firm’s management. The SEC seeks to use its own reporting requirements and other guidelines to add to the quality of the governance the firm would have in the absence of these SEC mandates. And yet, the possibilities exist that the more effective the SEC becomes in ensuring this, the more it substitutes the governance that would be provided anyway; that is, the improvement in governance provided by the SEC crowds out governance that the firm would have had anyway. Thus, governance reform must always be cognizant of the *substitution effect*, whereby government-sponsored (SEC) governance effectively ends up substituting for market-based governance. This aspect can be seen in the picture-1.5:



Picture-1.5. Tensions in the regulation of securities markets¹²

Banks are institutions that are typically regulated by the central banks in the countries in which they are headquartered and operate. In the U.S, Federal Reserve

¹⁰ International Financial markets: a diverse system is the key to commerce, AnjanThakor, 2015, P.65

¹¹ International Financial markets: a diverse system is the key to commerce, AnjanThakor, 2015, P.65

¹² International Financial markets: a diverse system is the key to commerce, AnjanThakor, 2015, P.65

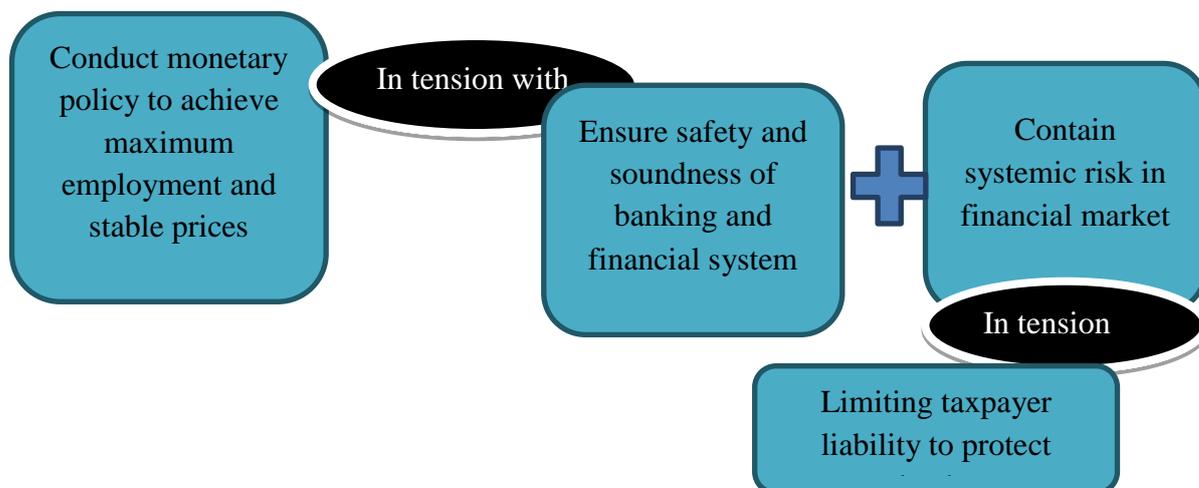
System(FED) regulates banks; in Europe, the European Central Bank fills this role. The U.S FED states its duties as falling into four categories:

- Conducting the nation's monetary policy by influencing the monetary and credit conditions in the economy in pursuit of maximum employment, stable prices, and moderate long-term interest rates;
- Supervising and regulating banking institutions to ensure the safety and soundness of the nation's banking and financial system and to protect the credit rights on consumers;
- Maintaining the stability of the financial system and containing systemic risk that may arise in financial markets;
- Providing financial services to depository institutions, the U.S .government, and foreign official institutions, including playing a major role in operating the nation's payments system.¹³

The FED has to cope with various tensions in the conduct of its policies. For example, increasing employment might call the FED to encourage banks to lend more, which may call for a loose monetary policy and low interest rates. However, to expand lending, banks may have to make it easier loans, which can jeopardize the fed's goal of containing systematic risk. This tension may also play out the FED pursuing its goals of microprudential regulation by increasing capital requirementsfor banks, but bankers may claim that this will reduce lending and limit economic growth. Similar tensions may exist when it comes to protecting the credit rights of consumers. But on the other hand, the costs imposed on the banks for developing compliance procedures and filling out the necessary paperwork to document compliance are higher. As the central bank, FED always walks a fine line in navigating these competing priorities. Yet another tension exists between the desire to prevent bank failures and the desire to limit the exposure of taxpayers who must provide assistance to prevent banks from failing, these tensions are illustrated in the picture-1.6 that tensions play very crucial role in the conducting monetary

¹³www.federalreserve.gov/aboutthefed/pf

policy to achieve maximum employment and stable prices. In addition, ensuring safety and soundness of banking and financial system are also important in tensions:



Picture-1.6. Tensions in the regulation of banks¹⁴

The mandate of the European Central Bank(ECB), the bank regulatory agency for the European Union, is similar to that of the FED, but it is not the same.

The ECB defines its basic tasks as follows:

- The definition and implementation of monetary policy for the euro area;
- The conduct of foreign exchange operations;
- The holding and managing of the official foreign exchange reserves of the euro area countries (portfolio management);
- The promotion of the smooth operation of payments systems.¹⁵

The differences between the Fed’s mandate and the ECB’s mandate are related in part to the fact that each country within the European Union also has its own central bank with supervisory and regulatory domain over the banks in the country. The tensions are related challenges faced by central banks typically come to a head during financial crisis. It is important to note that every financial crisis is preceded by some problems in the real sector of the economy and the crisis, in turn, also effects the real sector.

*Price stability.*The interaction between financial markets, economic growth and monetary policy is by no means a new issue for central bankers. However,

¹⁴ International Financial markets: a diverse system is the key to commerce, AnjanThakor, 2015, P.65

¹⁵ www.ecb.europa.eu/function

financial market developments have brought the question to the forefront of the policy debate. The continued integration and deepening of financial markets is a significant issue for policy-makers, and particularly for central bankers, since smoothly functioning and efficient financial markets are crucial in ensuring a smooth transmission of monetary impulses.

The best contribution that monetary policy can make to the smooth functioning and integration of European financial markets and to economic growth is to maintain a steady medium-term price stability orientation. Such a policy will be beneficial, as it will minimise the adverse effects of inflation and high inflation uncertainty. As we all know, price stability is beneficial in numerous ways. It not only creates a climate for higher economic activity over the medium term, but also reduces the economic and social inequalities caused by the asymmetric distribution of the costs of inflation among the various economic agents. In addition, in an environment of low inflationary expectations, inflation risk premia become relatively less important as a determinant of financial prices. As a result, other factors such as credit risk can play a larger role in the price formation mechanism. Ultimately, this results in a more efficient allocation of financial resources.

The approach of focusing on price stability is by now the conventional wisdom in industrialised countries. In the case of Europe, this consensus on the contribution of price stability in the medium term to promoting long-term growth is explicitly enshrined in the Statute of the ESCB, which states unambiguously that "the primary objective of the ESCB shall be to maintain price stability in the medium term." The ECB is convinced that by rigorously fulfilling this mandate, monetary policy is making its most effective contribution to the realisation of strong output growth and satisfactory employment prospects.

Financial stability and the role of central banks in banking supervision. Also the design of prudential regulation plays an important role from a growth perspective. Supervision is the guardian of financial stability, which in turn crucially determines the capability of the financial system to allocate resources efficiently and absorb liquidity shocks. Financial crises can have a deep and

protracted impact on economic growth, as illustrated by several episodes of financial instability that occurred in many countries. The contribution of prudential supervision to economic growth proceeds along two dimensions. From a preventive perspective, supervision has to ensure a continuous and comprehensive monitoring of all the potential threats to financial stability. The role of supervision is also crucial after the emergence of a crisis, in order to provide for a swift and ordered resolution. Supervisors can only be effective in these two respects if they are able to pay sufficient attention to systemic issues, namely the risk of contagion effects. In order to address this issue in an effective way, they should be able to bridge the gap between information of a micro-prudential nature, namely information on the safety and soundness of individual institutions, and macro-prudential analysis, which encompasses all activities aimed at monitoring the exposure to systemic risk and at identifying potential threats to financial stability arising from macroeconomic or financial developments. This line of argument would support a large role for central banks in supervision, since they have traditionally played a large role in macro-prudential analysis and the preservation of financial stability and they have acquired a strong expertise in this field. Furthermore, smooth access of central banks to micro-prudential information would also be profitable from the perspective of another traditional central banking task, namely the oversight of payment systems.

In spite of these arguments supporting a large role of central banks in supervision, the debate has remained broadly inconclusive in the economic literature so far, owing to the existence of opposite considerations. The first important argument against a large role for central banks is the so-called "conglomeration argument", which crucially relies on the idea of a blurring of distinction between banking, insurance and securities firms. In order to preserve the level-playing field, all segments of the financial industry would have to be supervised under the aegis of a common supervisor. According to this line of reasoning, this "umbrella" could not be the central bank, since the latter is traditionally in charge of supervising monetary organizations. I will not embark

upon a thorough analysis of this issue now. Let me just say that I am convinced that this argument has lost relevance in the current context characterized by a more market-based conduct of supervision - which alleviates the level-playing field concern - and by an increased relevance of systemic risk issues. The second major argument against a large involvement of central banks in supervision is the alleged conflict of interest between monetary policy and prudential supervision. Many authors have argued that the institution in charge of monetary policy cannot be entrusted with supervision, because the monetary policy stance would be "contaminated" by supervisory issues, for instance the need to safeguard the liquidity of individual banks.

The advent of the euro, however, has shifted the balance of arguments decisively in favour of a large involvement of national central banks (NCBs) in supervision, for two main reasons. First, the argument of a conflict of interest between monetary policy and prudential supervision becomes irrelevant within the euro area, where supervisory responsibilities are at the national level. Since the geographical jurisdictions of monetary policy and prudential supervision no longer coincide, NCBs in charge of prudential supervision are shielded from the traditional conflict of interest.

The second key factor is the increased relevance of systemic risk since the advent of the euro. The nature and scope of systemic risk have changed in a decisive way. A first decisive evolution is the growing integration of European financial markets in the euro area. The interbank market, especially the unsecured segment, is already fully unified across the area owing to the disappearance of the currency risk and the connection of national real-time gross settlement systems via TARGET, the large-value cross-border payment system of the Eurosystem. A second key evolution from the perspective of systemic risk is the growing merger and acquisition activity and the trend towards the emergence of financial conglomerates in Europe, which has, for instance, been identified in a recent G10 report on consolidation in the financial sector. In this new environment, financial institutions are increasingly involved in intricate networks of counterparties in the

interbank market and via payment and settlement systems, and the impact an unwinding of their positions could have on asset prices becomes even more ambiguous. These interrelations have a more international character than before the advent of the euro, which implies that supervision has to pay much more attention to euro area-wide developments. The national central banks of the euro area have a comparative advantage in this field owing to their responsibilities over payment and settlement systems, their traditional focus on systemic risk and their role as components of the Eurosystem. At first sight, this evolution runs counter to the need for a larger involvement of NCBs in prudential supervision. However, in this field implementation details are crucial. In particular, it is crucial that effective provisions for a close co-operation and a smooth exchange of information between the separate supervisory authority and the NCB are laid down. NCBs should in any case be entrusted with the task of safeguarding financial stability of the system as a whole and endowed with the instruments needed to pursue such an objective effectively. In this respect, an extensive operational involvement of NCBs in the conduct of prudential supervision is a key factor.

Summary

Firstly, the interventions of central banks to help stave off the failures of banks in their countries have many common elements . These interventions are, in fact, connected, since the central banks communicate with each other and often coordinate their actions (especially the ECB and the Fed) .

Secondly, central banks have invested massive amounts of resources in assisting their banks in order to limit systemic risk, which illustrates how the tension between the desire for financial stability and the desire to limit taxpayer support of banks has played out in practice . Third, while people often discuss the banking and shadow banking systems as if a bright red line divided them, quite a bit of shadow banking is actually embedded within traditional banks, and the conduct of central bank policy effectively provides resources to also support shadow banking institutions . Indeed, this support was quite explicit during the 2007–09 financial crisis as a run on MMFs prompted the U.S government to intervene by providing

unlimited insurance to all MMF investors, even though these investors' MMF accounts had no deposit insurance.

Finally, as research on financial system architecture has shown us, well-developed financial systems that are market-dominated (like in the United States) as opposed to bank-dominated (like in Europe) tend to be more innovative in creating new financial products to help to better manage risk and also more effectively support technological innovations in the real sector . Thus, while it is important to first develop robust and healthy banking systems, once the system is in place, then the more the architecture of the financial system leans on markets, the stronger and more vibrant the financial system becomes.

Those conclusions can be done: Increased signs of liquidity bifurcation and fragility, with market activity concentrating in the most liquid instruments and falling in less liquid ones.

Decline in dealer risk-taking capacity and willingness. Increasing differentiation and greater focus on core markets, which contributes to further bifurcation.

- Diminishing proprietary trading by banks;
- Growing and more concentrated demand for immediacy services;
- Adjustment in trade execution;
- Expansion of electronic trading;
- Improving order-driven markets;
- Stimulating Quote-driven markets;
- Developing Request for quote(RFQ) markets;
- Reaching facilitation revenues.

CHAPTER II. ANALYSIS OF DEVELOPMENT FEATURES IN THE INTERNATIONAL FINANCIAL MARKETS.

2.1. Liquidity analysis in international financial markets

Liquidity analysis of the international financial markets plays a crucial role in the reforming the stimulation of the system in finance and economy. In this case, before approaching in the analysis of the liquidity of international financial markets, it is very important to identify the need of liquidity and the dimension and functions of liquidity in the analyzing the figures.

In order to determine the meaning of liquidity, key points of liquidity can be beneficial for illustration:

- Liquidity is a multi-dimensional concept, generally referring to the ability to execute large transactions with limited price impact and tends to be associated with low transaction costs and immediacy in execution;
- Liquidity is important for effective market functioning. Liquidity in financial markets facilitates the efficient allocation of economic resources through the efficient allocation of capital and risk, the effective generation and dissemination of issuer-specific information, and the effectiveness of monetary policy and financial stability;
- In some markets such as fixed income and bespoke derivative instruments where matching supply and demand for a given instrument becomes more challenging, market makers, such as banks and trading firms are essential in providing liquidity and facilitating transactions by stepping in as counterparties to such transactions. This involves buying or selling financial instruments without an immediate matching transaction and requires market makers to bear risks relating to the movement in inventory values;
- Liquidity conditions can be differ significantly across different asset classes, even in normal times. Financial assets with lower levels of liquidity tend to have higher liquidity risk premia, and market participants also tend to face

higher transaction costs and wider bid-ask spreads when trading in these instruments;

- The financial crisis demonstrated the advantages of having a robust financial system which is able to absorb unpredictable shocks, while maintaining market-wide liquidity. In this case, market liquidity is invariably beneficial
- There are at least five broad trends driving global market liquidity conditions at the moment. These include
 1. Stable and supportive global monetary conditions, which support overall liquidity throughout the economy;
 2. The increase in electronification and digitalization in financial markets, which helps reduce the costs of trading and links up buyers and sellers;
 3. The growing engagement of providers of alternative market-based financing in some aspects of market making. Countering these three trends are:
 4. The overall increase in the size of financial markets and associated demand for liquidity;
 5. The reduced supply of dealer market making capacity, which is driven by regulatory reforms in the financial sector; and a diminished risk appetite across the banks as they adjust to a post-crisis market environment
- The current global economic, monetary and financial market environment is generally favourable to liquidity, such that detecting risks and fragilities becomes more challenging

Dimensions of liquidity. Dimensions of liquidity are the measures which identify the changes in the financial markets and demonstrate certain fluctuations or some shifts in the market. These figures are very useful and important. Because, without dimensions, there is no use of trying to identify the real stimulation of the financial market in the world. These dimensions can show us the real situation and make us understand that financial market's liquidity is not only figures, but also the overall

picture of the economy and finance in the world. In order to understand the brief explanation of dimensions of liquidity, we can look through the table-2.1:

Table-2.1

Dimensions of liquidity¹⁶

Dimensions of liquidity	Description	Measures
Immediacy	Immediacy typically refers to the time it takes to complete a transaction. Market makers are a constant source of immediacy	<ul style="list-style-type: none"> • Number of market makers; • Number of market participants; • Availability of quotes;
Depth and resilience	A market is deep when there is a large flow of trading orders on both the buy and sell side on a frequent basis and there needs to be a constant interest and willingness to trade	<ul style="list-style-type: none"> • Trading volumes; • Dealer inventory holdings; • Price impact of volume measures; • Turnover ratios
Breadth	Breadth typically refers to the consistency with which liquidity is distributed within asset classes and the differences in liquidity characteristics across markets	<ul style="list-style-type: none"> • Segmentation of liquidity such as share of volumes accounted for by the most liquid securities
Tightness	Tightness typically refers to the financial cost of completing a transaction	<ul style="list-style-type: none"> • Bid-ask spreads
Multi-dimensional	Multi-dimensional measures incorporate a number of features of the above. They are typically grouped into price based and market impact based measures.	<ul style="list-style-type: none"> • Liquidity risk premia; • Liquidity score;

On the other hand, there are some paramount factors which have a great impact on the decision of the investors in the financial markets. In other words, the question of whether to stay in this financial market or not can be debatable among participants due to 4 types of factors such as rate of transactions; price elasticity of demand, variability of inventory value and risk aversion. The table-2.2 can illustrate the potential effects of those factors in market maker's decisions. Those factors which are mentioned above(price elasticity of demand, variability of inventory value

¹⁶ It is self-work by the author on the basis of Global financial markets liquidity study, August 2015, P.152

and risk aversion) can be very supportive in understanding the real picture of the market overall:

Table-2.2

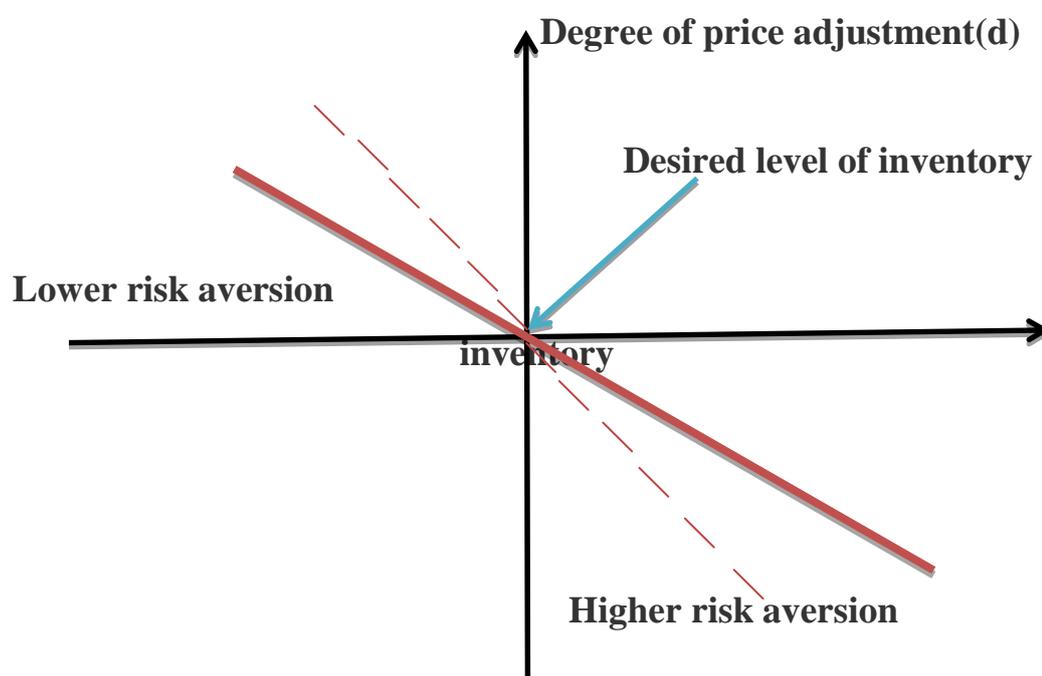
Prominent factors which determine market maker exit and entry for a given security¹⁷

Factor	Rationale	Illustrative relationship
<p>Rate of transactions</p>	<p>The benefits and costs to market making are dependent on the rate of transactions results in low fee income and mean that surplus inventory may have to be held for longer on balance sheet-exposing the market maker to changes in the underlying value of the security</p>	
<p>Price elasticity of demand</p>	<p>a lower price elasticity of demand means that the quantities of customer transactions are less sensitive to prices set by market maker. High price elasticities of demand may make market making unprofitable, for example, caused by competing sources of immediacy</p>	
<p>Variability of inventory value</p>	<p>The variability of inventory value, simple a function of the variability in the value of the underlying securities, and impacts the net benefit to market making. All else equal, the higher variability in the price of the security, the more risk the market maker absorbs</p>	
<p>Risk aversion</p>	<p>The level of market maker risk aversion impacts the tolerance towards absorption of risky inventory.</p>	

¹⁷ PWC analysis on the basis of Global financial markets liquidity study, August 2015, P.152

The degree to which prices adjust, how quickly prices move from the left-hand distribution($d=0$), to either the center or right-hand distribution, as inventory is accumulated or dissipated respectively, depends on security and dealer characteristics. Two characteristics which are of importance are dealer risk aversion and the variance in the value of the security in question.

The picture-2.3 shows how the degree the price adjustment varies across different levels of inventory for a lower risk aversion case and a higher risk aversion case. Prices are adjusted to a larger extent for any deviation from desired inventory levels in the higher risk aversion case:

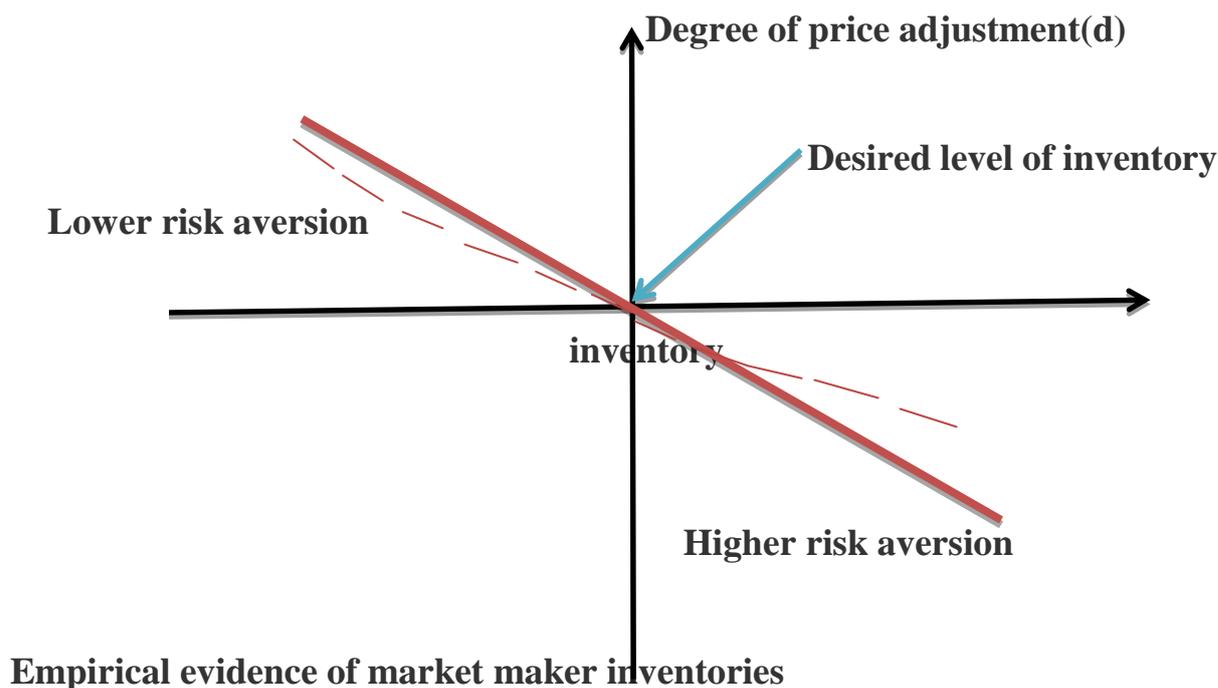


Picture-2.3. Degree of price adjustment and risk aversion¹⁸

On the other hand, picture-2.3 shows a similar relationship between inventory levels and the variance in the value of the security(or basket of securities) for which a market is being made. Interpretation is the same as the figure is illustrated above, where a higher security variance causes the degree of price adjustment to increase faster as inventory deviates from desired levels. These two relationships imply that both higher levels of risk aversion, and higher levels of volatility in underlying security values, could lead to faster price reactions from market makers to changes in inventory levels. This is particularly relevant in the case of one-sided transaction

¹⁸ PWC analysis on the basis of Global financial markets liquidity study, August 2015, P. 152

flows. This review of pricing behavior and drivers suggests market makers will provide liquidity into markets up to a point. When the risk gets too high in a one – way direction, then market makers, as other market participants will reduce trading activity. This also means that banks have commercial incentives to become more active with moderately increased volatility, especially when accompanied by increased transaction volumes, but that all market makers and market participants can leave the market in extreme events, when all liquidity does “try up”

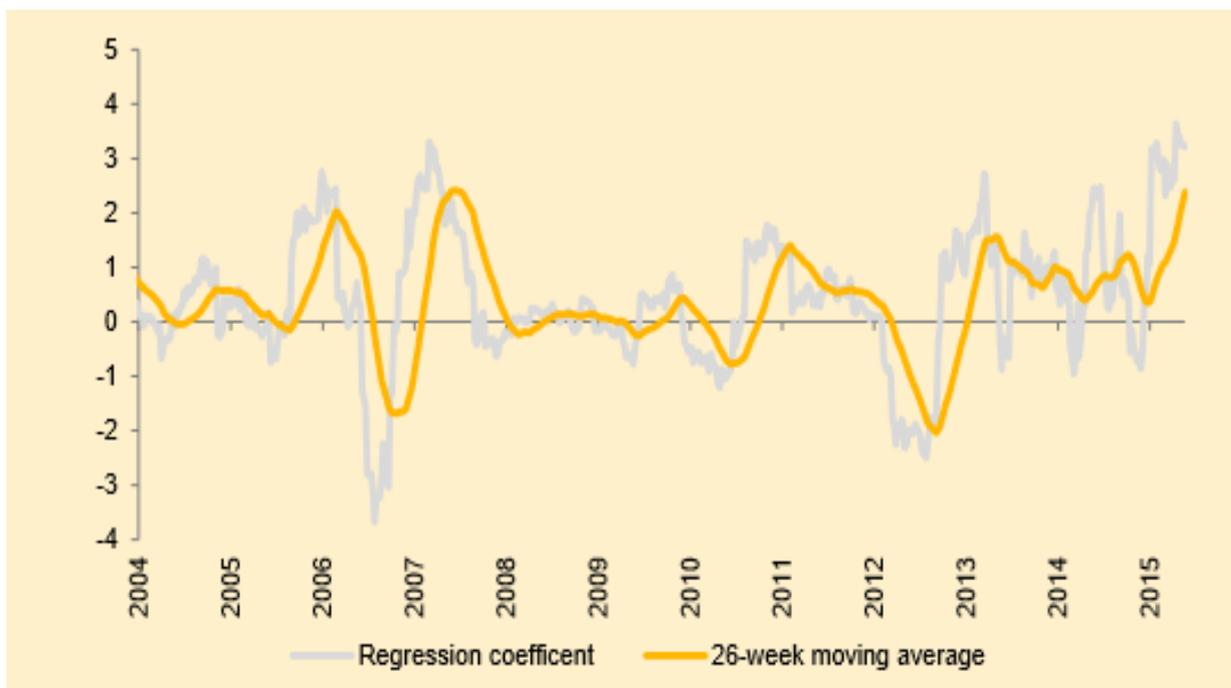


Picture-2.4. Degree of price adjustment and security value variability¹⁹

Market makers who provide immediacy should use their inventory to act as a counterweight to market demand. For example, as demand for bonds rises, and net order flows become positive, market maker inventories would be expected to decline, absorbing the market imbalance caused by temporary excess demand. Over short periods of time we would therefore expect to observe that inventories had a negative relationship with the market price of bonds. In this case, the picture-2.5 illustrates this relationship empirically for the USA market-the chart plots rolling coefficients for 26 week regressions of inventory changes in relation to bond price changes. In this figure, when the chart is above the line, this suggests a positive relationship between inventories and bond prices. When the chart is below the line,

¹⁹ PWC analysis on the basis of Global financial markets liquidity study, August 2015, P.152

this shows a negative relationship between inventories and bond prices. Therefore, all the time market speculators always try to avoid from financial uncertainties and attempt to respond promptly for dramatic changes in the international financial markets by using some beneficial position in the market and not letting anyone to be in front of their important position in the market:



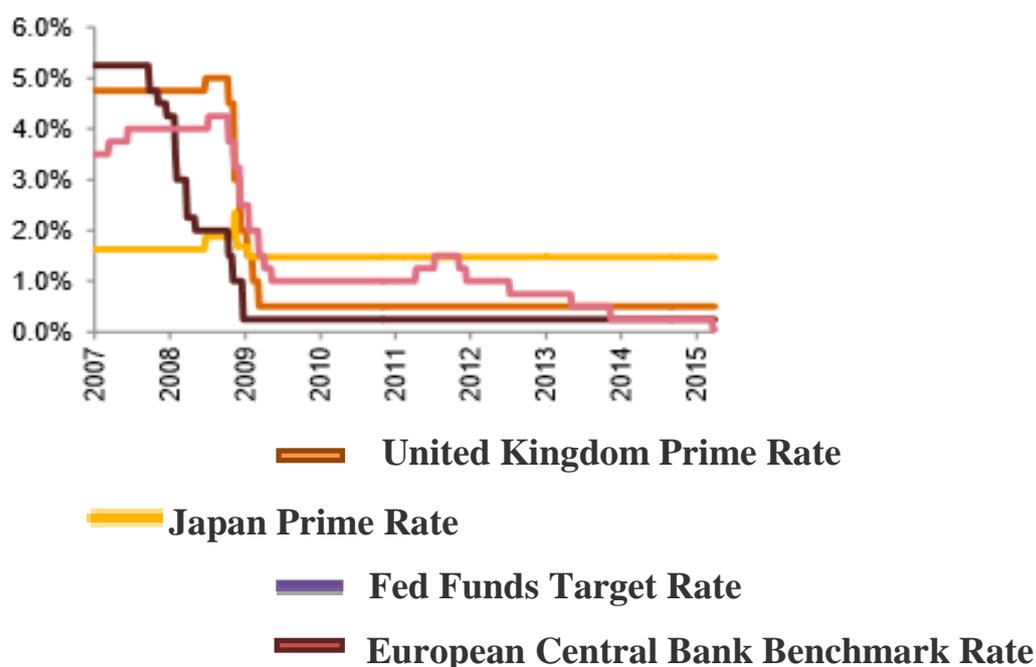
Picture-2.5. The USA inventory response to us bond price changes²⁰

Picture-2.5 suggests that more often there is a broadly flat relationship between inventories which hold steady in relation to bond prices. However, the relationship has become consistently positive since the beginning of 2014, and has not demonstrated the same version to a flat relationship as in past periods. This indicates there may be a change in the way market makers are functioning, indicating that market makers are less likely, are less able, to absorb temporary supply and demand imbalances by stepping in as buyers (or sellers) against trades sought by other market participants.

The role of interest rates in financial market liquidity. Sovereign bond markets, which have been affected by the short-term periods of volatility, show declines in depth and immediacy. Breadth in interest rate derivatives has declined, as indicated by bifurcation across currencies and across cleared and non-cleared

²⁰Federal Reserve Bank of New York, Thomson Reuters, PwC analysis. August 2015, P.153

derivatives. Policy rates of central banks anchor the broader universe of markets rates. By adjusting, the policy rate, central banks control the cost to banks of obtaining funding. The central bank effectively adjusts the supply base money to meet market demand for liquidity at the official rate. The policy rates targeted by central banks are often a short-term repo rate. For example, the target rate of the Bank of England is a two weeks repo rate, based on high quality collateral. The picture-2.4 presents the evolution of major central banks' policy rates from 2007 to March 2015. From the chart it is clear that there has been very little movement in these core global rates over the past several years, as an era of exceptionally loose monetary policy has persisted.

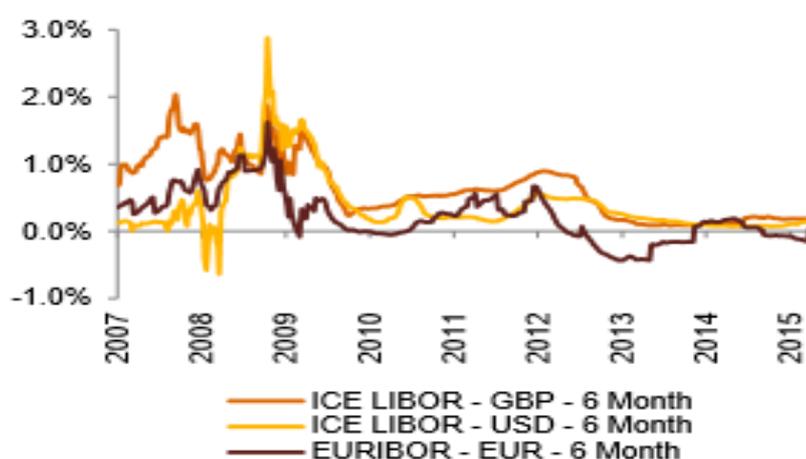


Picture-2.6. Major central banks policy rates²¹

Additionally, banks can obtain funding through the interbank money market, with cash being transferred from banks with excess reserves, to those with a deficit in the reserves. These interbank loans are unsecured interbank cash loans. The key rates in this market are the interbank offered rates, for example, the London Interbank Offered Rate and Euro Interbank Offered Rate. Because, interbank loans bear more credit risk than collateralized repos or banks deposits with central banks

²¹ Federal Reserve Bank of New York, Thomson Reuters, PwC analysis, August 2015, P.152

LIBOR tends to have a positive spread over corresponding central banks rates. However, the spread tends to be small. This is because both interbank loans and repo agreements are short-term in nature and close substitutes this means that the official central bank rate influences how expansive it is to accumulate reserves, and conversely, the return that can be earned on excess reserves. During the financial crisis, interbank markets were disrupted, and spreads between LIBOR and central bank policy rates jumped significantly. The rise in spreads during the crisis is captured in picture-2.7, but this has since declined as market conditions have normalized:



Picture-2.7. Spread of 6-month LIBOR and EURIBOR and EURIBOR over central bank policy rates²²

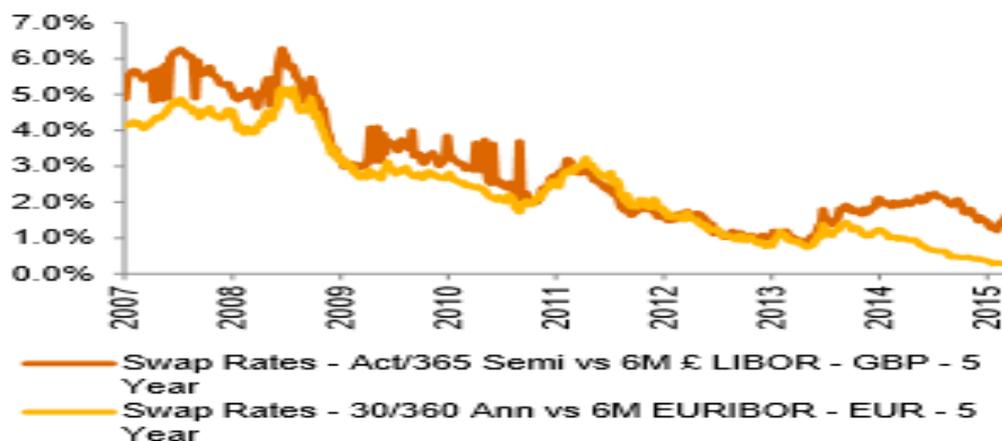
Another key market rate that is rate derivatives and they are playing a crucial role in the financial market institution and the financial market itself. The most prominent form of interest rate derivative is the interest rate swap(IRS). A vanilla IRS involves exchange of cash flows, one at pre-agreed fixed rate with another at a floating rate, often based on major reference rates, such as six month LIBOR. Historically IRS have been traded OTC. Interest rate swaps allow corporates to reduce the uncertainty of future cash flows and future liabilities²³.

Picture-2.8 shows the trend for the rate of the five year fixed-floating IRS. The prices for swaps denominated in GBP and EUR have fallen significantly since 2008. However, compared to GBP denominated swaps, the EUR IRS rate has continued to

²² Federal Reserve Bank of New York, Thomson Reuters, PwC analysis, August 2015, P.152

²³ ISDA (2014) "MiFID II and MiFIR consultation paper

decline through 2014, as expectations of prolonged expansionary monetary policy in the Euro are have grown:



Picture-2.8. GBP and EUR 6 months libor-5 year interest swap²⁴

Another common interest rate derivative is a short-term interest rate future (STIR). These relatively simple futures have a rate equal to 100 minus the chosen interest rate, and mature at a fixed point in time. These can be used to hedge, or take proprietary trading positions on the future interest rate movements.

Provision of liquidity in the rates derivatives market. Interest rate derivatives are generally traded OTC. Commonly traded derivatives such as vanilla swaps tend to be more liquid than bespoke instruments. For example, floating rate reference indices in interest rate derivatives tend to be highly standardized. However, generally speaking, the interest rate derivatives market is characterized by heterogeneity in contract terms, low frequency of trading and a high degree of trade dispersion. Liquidity is provided by banks who step in as market makers. In an interest rate swap for example, the counterparty on the other side of the trade tends to be investors (e.g. non-bank financial institutions) and corporates who want to exchange one stream of interest payments for another.

2.2. Analysis of financial markets in advanced economies

The world economy is the middle of a balancing act. On the other hand, countries must address the legacies of the global financial crisis, ranging from debt overhangs to high unemployment. On the other hand, they face a cloudy future.

²⁴ ISDA (2014) "MiFID II and MiFIR consultation paper"

Potential growth, rates are being revised downward, and these worsened prospects are in turn affecting confidence, demand, and growth today.

The interplay of these two forces-the crisis legacies proving tougher to resolve than expected and potential growth turning lower-has resulted in several downward revisions to the forecast during the past three years. World growth is mediocre and a bit worse than forecast in July. At the same time, because these two forces operate to different degrees in various countries, evolution of the global economy has become more differentiated.

Among advanced economies, the United States and the United Kingdom in particular are leaving the crisis behind and achieving decent growth-though even for those two countries, potential growth is now lower than in the early century. Japan is growing, but high public debt inherited from the past and very low potential growth create major macroeconomic and fiscal challenges. Growth nearly stalled earlier this year in the euro area, even in the core. Although this partly reflects temporary factors, the recovery has been slowed by the crisis legacies, primarily in the south, and by low potential growth nearly everywhere.

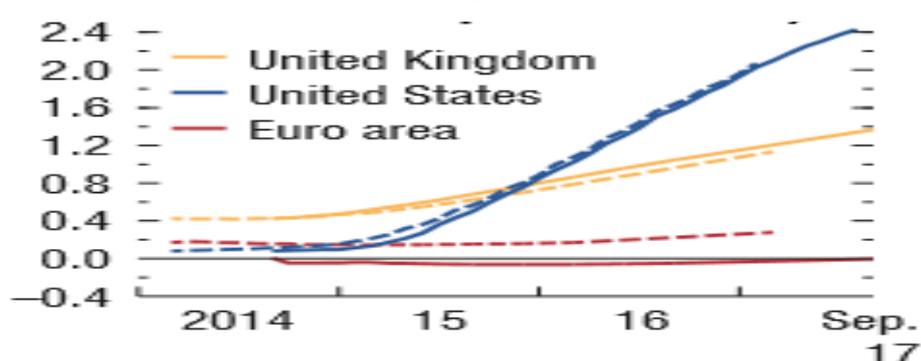
In emerging market economies, lower potential growth is the dominating factor. For these economies as a whole, potential growth is now(2015) forecast to be 1.5% lower than in 2011. Here again, differentiation is the rule. China is sustaining high growth, but slightly lower growth in the future is seen to be a healthy development. India has recovered from its relative slump; thanks in part to effective policies and a renewal of confidence, growth is expected once again to exceed 5%.²⁵ In contrast, uncertain investment prospects in Russia had already lowered growth before the Ukraine crisis, and the crisis has made growth prospects worse. Uncertain prospects and low investment are also weighing on growth in Brazil. The downside is clear. Because, firstly, the long period of low interest rates has led to some search for yield, and financial markets may be too complacent, about the future. These risks should not be overplayed, but policymakers clearly must be on the lookout. Macroprudential tools are the right instruments to mitigate these risks;

²⁵ World economic outlook, 2014, P.213

whether they are up to the task, however, is an open question; secondly geopolitical risks have become more relevant. So far, the effects of the Ukraine crisis have not spread beyond the affected countries and their immediate neighbors. And the turmoil in the Middle East has not had much effect on the level or volatility of energy prices. But clearly, this could change in the future, with major implications for the world economy.

In advanced economies, policies must deal with both sides and low potential growth. A major focus has been on improving bank balance sheets, but debt overhang of firms and households remains a serious legacy issue in a number of countries. To increase potential growth, as long as demand remains weak, monetary accommodation and low interest rates remain of the essence.

Monetary Conditions in Advance Economies. Monetary conditions have remained very accommodative in advanced economies. In the United States, the reduction in monthly asset purchases by the Federal Reserve has continued, with purchases expected to be wound down about the time, but the policy rates remain close to zero. The European Central Bank recently took a range of measurements to tackle low inflation and address financial fragmentation, including targeted credit easing and other measures to boost liquidity:

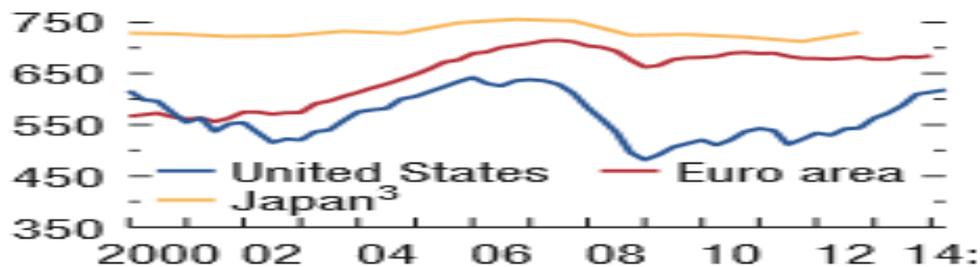


Picture-2.9. Policy rate(from 2014 and expectation for 2017)²⁶

It is clearly seen from the line graph that the policy rate of United States rose dramatically going up from approximately 0% to the highest rate of 2.4% in near future(September 2017). On the other hand, the figure for Euro Area is not noticeable and it means that Policy rate did not affect the Euro Area. To be more

²⁶ World economic outlook, 2016, P.217

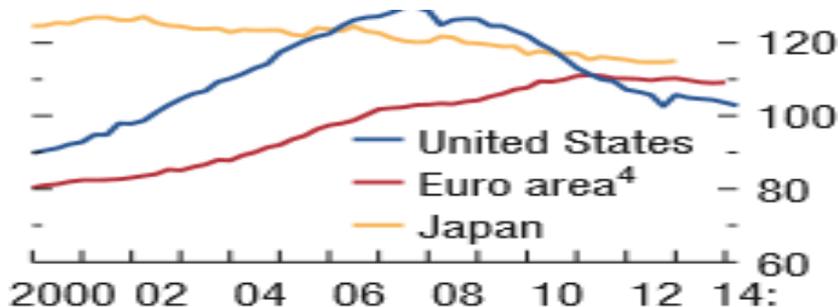
precise, the rate of Policy fluctuated between 0% and 0.4%. whereas the figure for United Kingdom grew negligibly by 3 times (including the expectation of September 2017)



Picture-2.10. Household net worth (percent of household gross disposable income)²⁷

Japan- Interpolated from annual net worth as a percentage of disposable income.

What stands out of this graph is that Japan was the most popular in the percent of household gross disposable income. In contrast to it, Euro Area was the second most popular in that feature and The United States was the least popular in 14 year period.



Picture-2.11 Household debt (percent of household gross disposable income)²⁸

Euro Area- Euro area includes subsector employers (including self-employed workers).

It is noticeable from the graph that the reason behind low disposable income of Americans was that they had the highest rate of household debt among countries such as Japan and Euro area. In emerging markets, policy rates have been reduced in Chile, Mexico, and Peru following disappointing growth, and in Turkey, where part

²⁷ World economic outlook, 2016, P.213

²⁸ World economic outlook, 2016, P.213

of the sharp tightening earlier in the year has been unwound. Policy rates were raised in the first half of the year in Brazil and Colombia; in Russia, which is facing pressure on the ruble; and in South Africa

Geopolitical tensions have increased since spring, with a worsening of the Russia-Ukraine situation and continued strife in some countries in the Middle East. So far the impact of these tensions on economic activity appears to have been mostly limited to the countries involved and their closest trading partners; financial market reaction has been muted, and commodity prices have actually eased. However, it is difficult to assess the implications of the worsening of such tensions. In fact, the effect on real interest rates has been more muted and in a number of countries, decreases in policy rates have been associated with increases in real interest rates, largely because of sharper downward adjustments in inflation (table-2.12). Weak monetary transmission channels on the supply side and persistent uncertainty on the demand side largely explain why monetary easing did not lead to higher levels of borrowing and capital formation by the non-financial sector:

Table-2.2

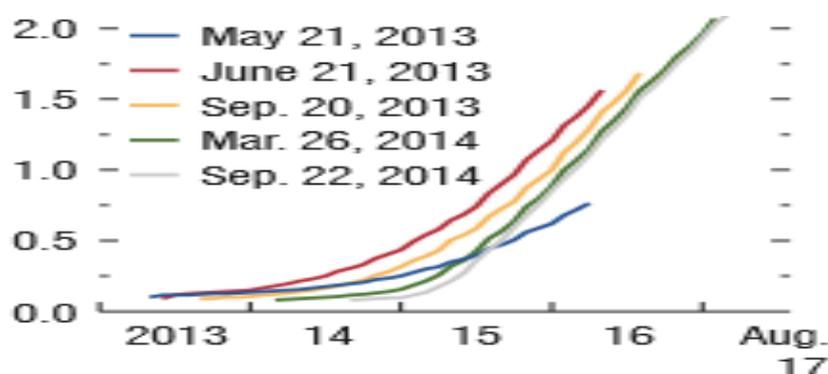
Changes in policy rates and lending rates in advanced Economies²⁹ (2008-2014)

	Net change in policy rates	Net change in lending interest rates	Net change in real interest rates
	2008-2014	2008-2014`	2008-2014
United States	-2.75	-1.8	-1.3
Japan	-0.15	-0.7	-3.6
United Kingdom	-4	-4.2	-3
Canada	-3.75	-1.7	0.4
Australia	-4.25	-3	0.3
China	-1.47	0.3	7
India	0.25	-3	2.7
Brazil	-0.75	-15.2	-11.8
Russian Federation	1.5	-1.1	8.5
South Africa	-5.5	-6	-2.6

It is noteworthy to say that policy rate has its own important role in the financial market development. The main reason behind this is that most of the

²⁹World Economic Situation and Prospects. 2016, P.18

financial operations, in the country, table-2.12 can show how the policy rate has been changing in recent years and its influence to the financial market of advanced economies: some most important trends in the financial market can be related to the political situation. Moreover, the link of failure is between falling fixed capital formation and diminishing productivity trends during the post-crisis period. While productivity growth had begun falling before the global financial crisis, particularly in the United States, the downturn in productivity growth became more pronounced with the near collapse of fixed investment that began in 2009. Falling investment and productivity growth has had an adverse impact on the trajectory of potential growth in both developed and developing economies. If weak investment trends worldwide continue to persist, it is unlikely that productivity growth will accelerate in the near term and the promise of decent work and higher living standards- as envisaged in the 2030 Agenda for Sustainable Development- will remain elusive. Monetary easing measures need to be complemented with targeted lending programmes, especially for small and medium-sized enterprises, to ensure that low policy rates indeed boost borrowing, investment and productivity growth.



Picture-2.13. Policy rate(with expectation for august 2017)³⁰

As we can see from the graph that policy rate in most of the dates in both 2013 and 2014 rose dramatically. To be more precise, in these dates, only March, May, June and September are most important dates for the policy rate. In this case, the expectation for the policy rate in 2017, August is also going to rise significantly. On the other hand, the key interest rates are also playing magnificent role in the stimulation of the financial market in most of advanced economy countries.

³⁰ World economic outlook, 2016, P.18

Therefore, the process of BREXIT is also effecting the policy rate in the financial markets and most of the financial institutions claim that BREXIT is fundamental element of UK and it can have negative effect on the European Union. But UK can get benefit from single market association.

*What happens in the event of BREXIT?*The main fear was that most of the financial institutions and real sectors of EU economy lose their automatic passporting rights in the event of BREXIT. The volume of passporting activity from the UK shows that this could cause significant distribution to UK-based market participants and their customers. However, while it is tempting for people in the UK to focus on the impact on UK capital markets, several responders warned that clients and counterparties in the rest of the EU could also face uncertainty and disruption if firms based in UK lost the automatic right to do business with them

*Effects of BREXIT for EU passporting.***Banks-** in the event of BREXIT, banks in UK may have to set up separately-capitalised subsidiaries inside the EU, and investment banks may have to set up separate broker leaders in the EU in order to retain this automatic access.

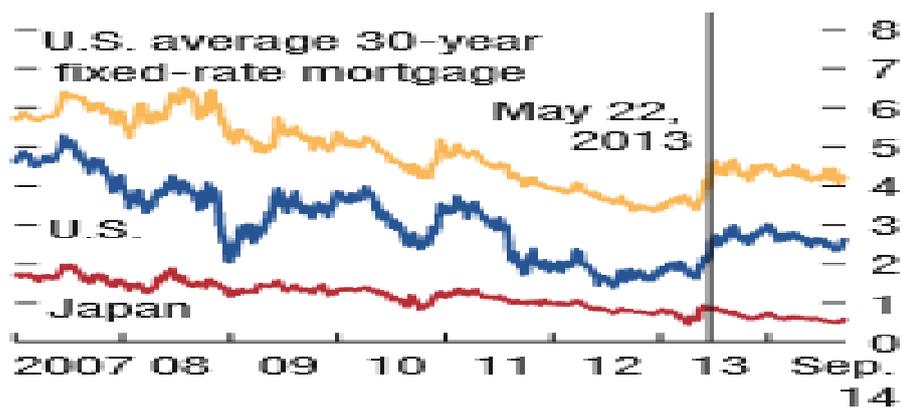
Asset managers- in the event of BREXIT, asset managers' biggest concern is that they could lose their automatic passporting rights, and nearly 1 trillion of UCITS(Undertakings for the collective investment in transferable securities) funds domiciled in the UK could lose their UCITS status unless they moved their domicile to inside the EU. On the other hand, asset managers based in the UK but with funds already domiciled in the rest of the EU (Luxembourg and Ireland account for 54% of all UCITS funds by domicile) should still be able to manage those funds on behalf of clients.

*Trading and market infrastructure-*trading and market infrastructure firms can operate across the EU under a wide range of EU regulations including Mifid and EMIR. It means that an exchange, central counterparty or trading platform has a right to provide services to other market infrastructure firms or clients across the EU, and a right to access local market infrastructure firms across the EU. This has helped boost competition in trading and clearing across the EU, which has increased

liquidity and lowered the cost of trading. In the event of BREXIT, trading platforms and market infrastructure may have to set up a physical presence inside the EU to retain the same level of access.

Private equity and venture capital-passporting under AIFMD(The Alternative Investment Fund Managers Directive), Mifid and European venture capital regulations enables private equity and venture capital firms to raise funds and market to investors across the EU. It also provides easier access to non-EU funds for EU-based investors if the manager is based inside the EU. Outside of the EU, private equity firms in the UK may have to raise funds from EU investors under separate national private placement regimes.

Hedge funds- hedge funds said that passporting under UCITS, which is usually associated with more traditional asset management, was more important than passporting under AIFMD. Continental European investors are more comfortable with the UCITS structure and brand, and 28% of all hedge fund assets in the UK are held in UCITS structures, mainly domiciled in Ireland and Luxembourg.This situation can lead to the recent shifts in the operations in the financial markets and picture-2.14 illustrates the key elements of interest rates in Japan and United States of America:



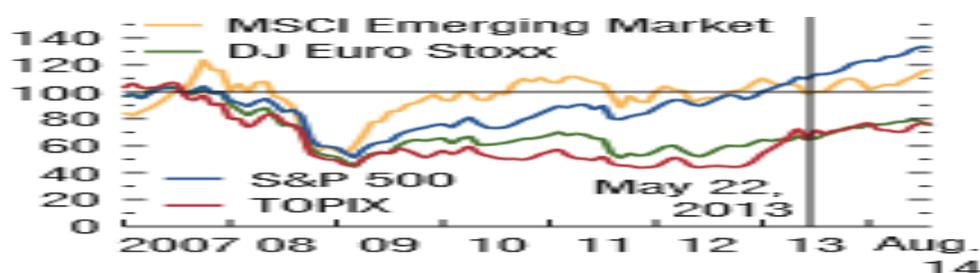
Picture-2.14. Key interest rates(2007-2014)³¹

It is clearly seen from the line graph that in the USA(United State of America), the average 30-year fixed-rate mortgage fluctuated between 4 and 6% respectively whereas the figure for the May 22 in 2013 showed that mortgage rate

³¹ World economic outlook, 2014, P.213

faced a gradual decrease from 5% to nearly 2% in September 2014. The main reason is that, at that time there was the highest point of financial crisis influence for all countries, especially for USA and people just did not pay attention to mortgage rate and this led to the reduction of that rate in USA. On the other hand, the rate for Japan was between 1% and nearly 0% for 7 year period. In this case, Japan experienced the deflation at that time and it was obvious from the graph.

It is admittedly to note that the financial crisis in 2008 also affected the equity markets of all over the globe. The features of financial crisis did not pass through the equity market which led to the collapse in some operation of that financial market:



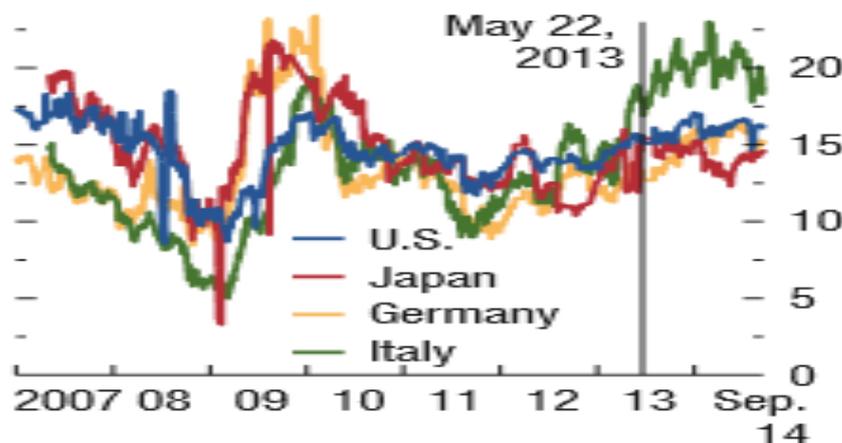
Picture-2.15 Equity markets(in us dollars)³²

What stands out of this graph is all of types of stocks faced a negligible decrease between 2007 and 2008 because of financial crisis. In other words, at that time, financial fragility was occurring in most of the financial markets and it did not pass through the equity market and as we can notice from the graph that the price of each type of stock decreased up to 40\$ in 2008(in one year period). After which, the situation started to be optimistic and all of the stocks witnessed a significant rise from 2008 till August 2014. To be more precise, the price of MSCI Emerging Market stock rose by 3 times between 2008 and 2014 whereas the figure for S&P 500 jumped from 40\$ in 2008 till 140\$ in 2014. In contrast to those figures, cost for both DJ Euro stoxx and TOPIX experienced a downward trend in comparison with those of MSCI Emerging Market and S&P 500. In this case, the point for DJ Euro stoxx oscillated between 40\$ and 80\$ within 7 year period and the same trend we can conclude for prices of TOPIX. Indeed, there are some reasons for this kind of trend for DJ Euro stoxx and TOPIX. The main reason is that most of the time the

³² World economic outlook, 2014, P.213

demand for those stocks was so low. It means that the participants of financial markets felt uncomfortable in purchasing with those stocks and because of this reason the price for those stocks started to decrease steadily compared with those of MSCI Emerging Market and S&P 500.

On the other hand, the price-to-earnings ratios also changed in the advanced economies and this led to the market volatility. The real situation after financial crisis is illustrated by the picture-2.16:



Picture-2.16 Price-to-earnings ratios³³

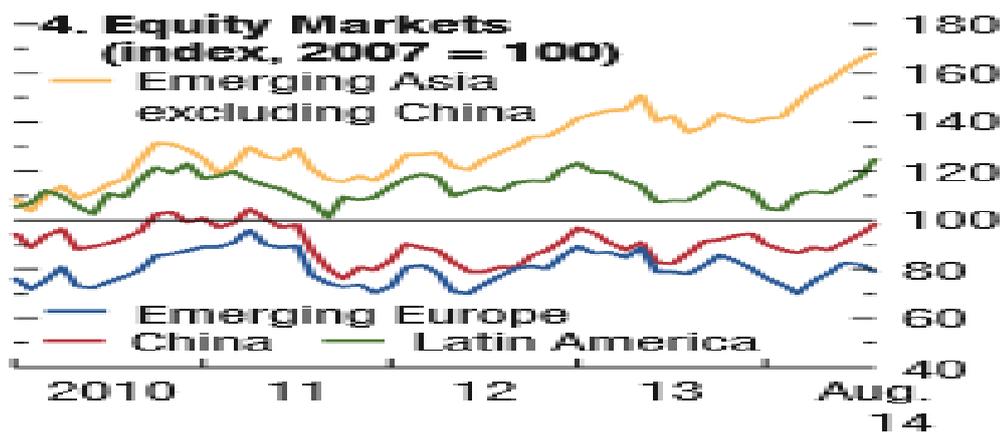
It is clearly seen from the graph that during the top circumstance of financial crisis(2007-2009) the ratio faced a dramatic decline from 15% to even 5%. In this case, after 2009, all countries namely U.S, Japan, Germany and Italy witnessed a gradual growth in the price-earnings ratio. To be more precise, the ratio of Japan rose by 10 percent in to year period from 2009 till 2010 and the figure for Germany was even higher than that of Japan at that time. In contrast to this situation, the ratios for U.S and Italy rose by 10% respectively in two year period. On the other hand, the figure for three countries namely Germany, U.S and Japan fluctuated between 10 and 15% from 2010 till 2014 whereas the proportion for rose to 20% in 2014. Overall, this analyze shows that Italy managed to stimulate the financial system by setting financial reforms which led to higher price-earnings-ratio in comparison with the rest three countries namely U.S, Germany and Japan.

³³ World economic outlook, 2014, P.213

Large developing countries remain prone to capital flow volatility and exchange-rate pressures. Despite some revival in the first months of 2016, the depressed level of capital flows relative to 2011 is projected to continue, albeit to a lesser extent compared to the sharp capital reversal last year. In 2015, as the growth gap with the developed countries narrowed, net capital outflows from emerging economies reached \$570 billion, with gross inflows plummeting to \$290 billion- after averaging \$1.2 trillion between 2010 and 2014- and gross outflows posting \$860 billion³⁴. Therefore, participants of financial markets always try to get rid of financial fragile and some uncertain risks which can run across them during the development of financial market. in this case, taking into consideration those statistics can be helpful for the future prospect of financial market all over the globe.

2.3. Analysis of financial market in emerging and developing countries

Mirroring developments in advanced economies, financial conditions have also eased in emerging market economies. Equity prices have declined, long-term interest rate increases seen in the first quarter of 2014 have typically been more than fully reserved, and risk spreads have broadly declined. Net capital inflows in emerging markets over the past four decades have exhibited cycles.



Picture-2.17. Equity markets(index,2007=100)³⁵

It is clearly seen from the line graph that, index for emerging Asian excluding China and Latin America was above 100 in 4 year period whereas the figure for

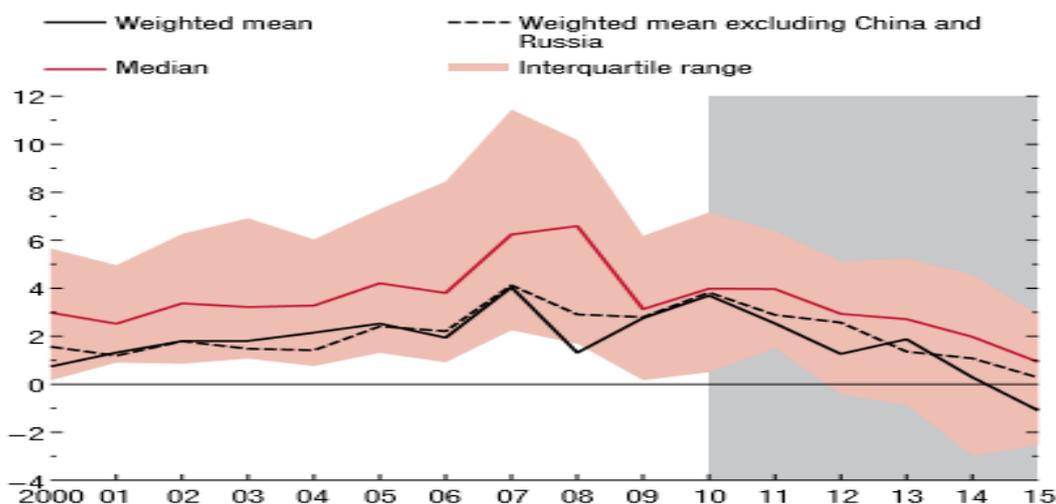
³⁴ Institute of International Finance (2016), "Capital Flows to Emerging Markets", January, P.30

³⁵ Bloomberg, L.P.; EPFR Global; Haver Analytics; IMF, International Financial Statistics database

Emerging Europe and China was below 100. To be more precise, index for China fluctuated between 80 and 100 while the figure for Emerging Europe was within 75 and 80 in 4 year period.

Past net capital inflow slowdowns have been associated with external debt crisis.

The picture-2.18 can illustrate us the net capital inflow to emerging Market economies in 15 year period(between 2000 and 2015). It is clearly seen from the picture that, interquartile range rose up to 12 percent during 15 year period and it was the highest point ever. On the other hand, at the same time the median of that was also nearly 6 % of GDP(Gross Domestic Product) which means that in 2008 during the financial crisis, market vulnerability was of high concern all over the globe:

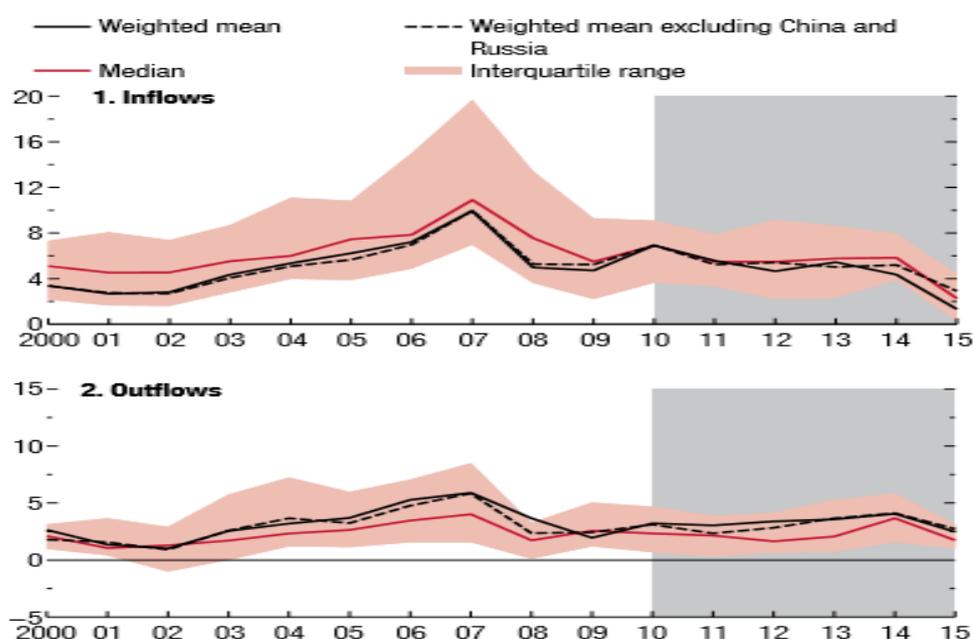


Picture-2.18. Net capital inflows to emerging market economies(percent of GDP) ³⁶

Net capital inflows to emerging market economies have shown a sizeable decline since 2010, a decline of comparable magnitude is present in all quartiles of the 45-country sample, as well as for weighted mean of capital inflows. The behavior of weighted mean is similar regardless of whether it includes China and Russia, but with those two countries included, the measure declined sharply for 2014-2015.

³⁶ CEIC Asia database; CEIC China database; Haver Analytics; IMF, Balance of Payments Statistics; IMF, International Financial Statistics; World Bank, World Development Indicators database; and IMF staff calculations. Note: Balanced sample of 45 emerging market economies P.200

The overall size of the 2010-2015 slowdown, measured as the change in net capital inflows between 2010 and the year ending in the third quarter of 2015 was \$1.123 trillion for the full sample of 45 emerging market economies and \$448 billion when China and Russia are excluded. Expressed relative to economic activity, the aggregate decline in net capital inflows was 4.9 percent of the samples' GDP- reflecting that the weighted mean of net capital inflows swung from an inflow of 3.7 percent of GDP in 2010 to an outflow of 1.2 percent during the most recent four quarters(the fourth quarter of 2014 through the third quarter of 2015). The slowdown occurred in three-quarters of the 45 emerging market economies.³⁷ In this case, emerging economies always try to attract foreign investors into the financial market which means that the rate of inflows should be higher in the emerging economies in terms of cash flows and amount of investment in the financial markets and this can lead to the development of the market in those economies:



Picture-2.19. Capital inflows and outflows for emerging market economies, 2000-2015(percent of GDP)³⁸

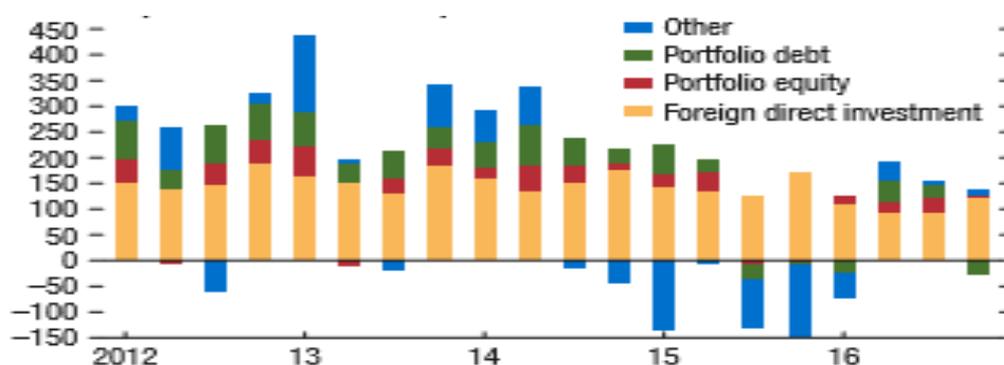
It is clearly seen from the picture-2.19 that the decomposition reveals that, behind the sustained decline in net capital inflows, the contributions from inflows

³⁷ www.worldbank.org/economics

³⁸ CEIC Asia database; CEIC China database; Haver Analytics; IMF, Balance of Payments Statistics; IMF, International Financial Statistics; World Bank, World Development Indicators database; and IMF staff calculations. Note: Balanced sample of 45 emerging market economies P.200

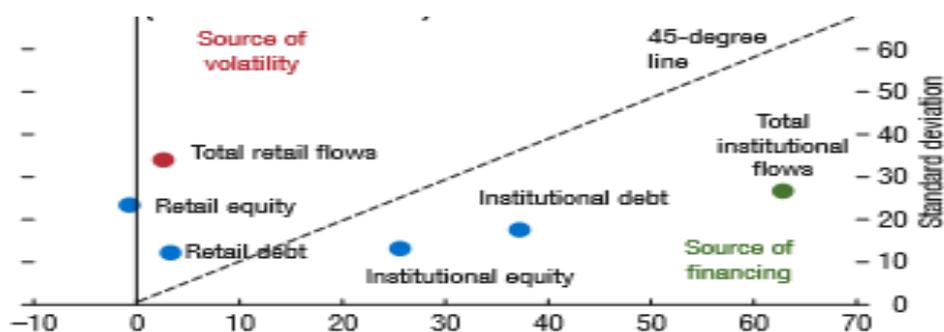
and from outflows vary sizably over time. A rise in outflows was the main driver of the slowdown during 2012-2014, whereas a decline in inflows was chief contributor in 2011 and even more so in the first three quarters of 2015. During the latter episode, capital inflows fell as well, mitigating the slowdown in net inflows. Hence, a focus on the flows in only one direction will bias the dating of the slowdown. For example, if only gross inflows are considered, an uninterrupted slowdown starts in 2014 and accelerates in 2015.

The decline in inflows, which appears in both the weighted-mean and median measures is somewhat more pronounced for debt-generating inflows than for equity-like inflows. Emerging market currencies would come under pressure as capital flows reverse, limiting space for monetary policy to ease and keeping longterm interest rates high. Such an environment would reduce firms' debt-servicing capacity and could prompt institutional investors to undertake a more forceful and sustained shift away from emerging market economies, undermining a vital source of external financing and this process can be seen in picture-2.20 and picture-2.21 below:



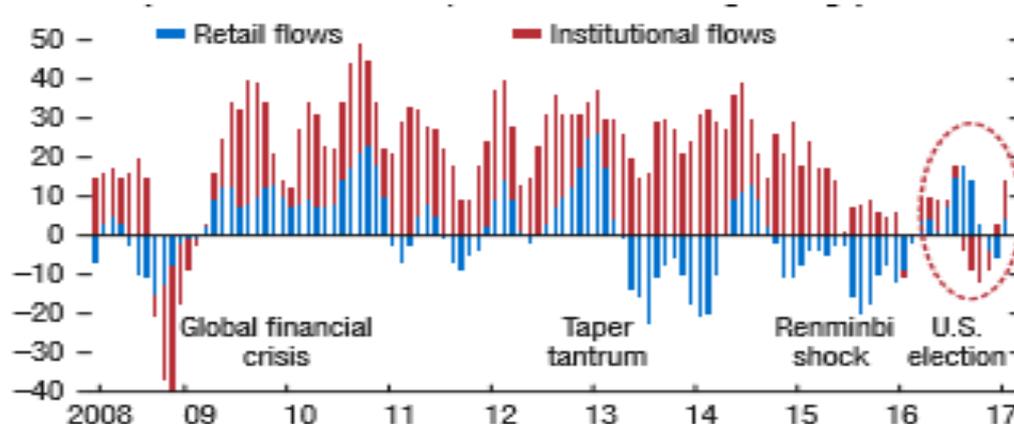
Picture-2.20 Nonresident capital flows to emerging market economies (billions of USD)³⁹

³⁹ www.worldbankgroup.com/default/main



Picture-2.21. Emerging market quarterly portfolio flows by investor type, 2010-2016⁴⁰

Such an outcome could also amplify asset price volatility induced by retail investors. Until recently, capital flow reversals were driven mainly by herd behavior on the part of retail investors, while continued buying by institutional investors helped offset some of the downward pressure on emerging market economy asset prices and picture-2.22 can show us the trend:



Picture-2.22. emerging market quarterly portfolio flows by investor type (billions of U.S dollars, three-month moving average)⁴¹

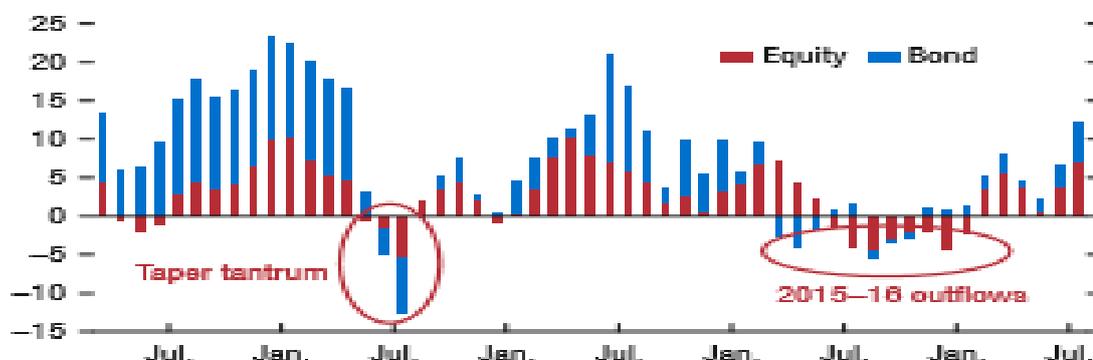
However, inflows from institutional investors have declined in recent quarters. The period following the U.S. election in November 2016 marked the first notable retrenchment by these investors since the global financial crisis (though flows rebounded in early 2017).

On the other hand, Short-term risks for emerging market economies have declined in recent months with commodity prices stabilizing and external conditions

⁴⁰www.worldbankgroup.com/default/main

⁴¹www.worldbankgroup.com/default/main

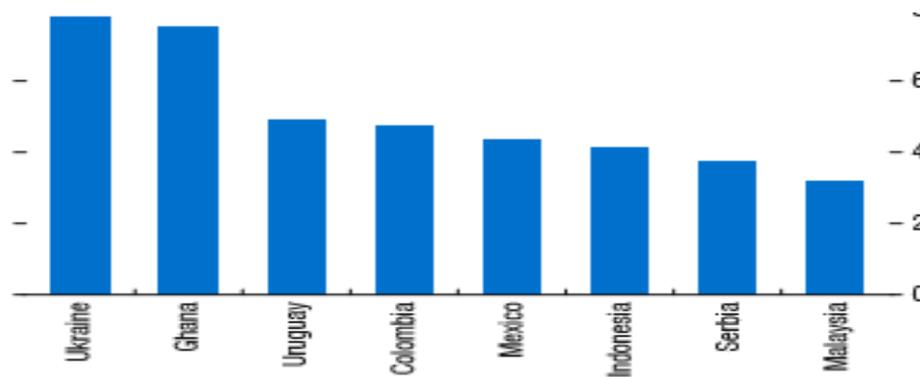
improving. The growing share of advanced economy sovereign bonds trading in negative territory, along with expectations for further easing by major central banks, have rekindled the global search for yield. The stabilization of capital outflows from China, and reduced uncertainty about China’s near-term growth outlook, have supported broader positive sentiment toward emerging market currencies. Currency volatility has declined steadily after spiking earlier this year, lending support for local-currency-denominated assets. As a result, portfolio flows to emerging markets rebounded in March after three-quarters of retrenchment. Total emerging market portfolio inflows have strengthened further since the Brexit referendum in June. Domestic factors have also contributed to attracting portfolio flows. Signs of stabilization in economic activity have emerged in some countries, with business cycle indicators such as purchasing managers’ indices recovering. The decline in borrowing costs and stability of currencies resulted in an improvement in financial conditions since the second quarter of 2016, which allowed firms to roll over their maturing debt we can see the portfolio flows to emerging market economies in terms of equity and bonds:



Picture-2.23 Nonresident portfolio inflows to emerging market economies(billions of U.S. dollars)⁴²

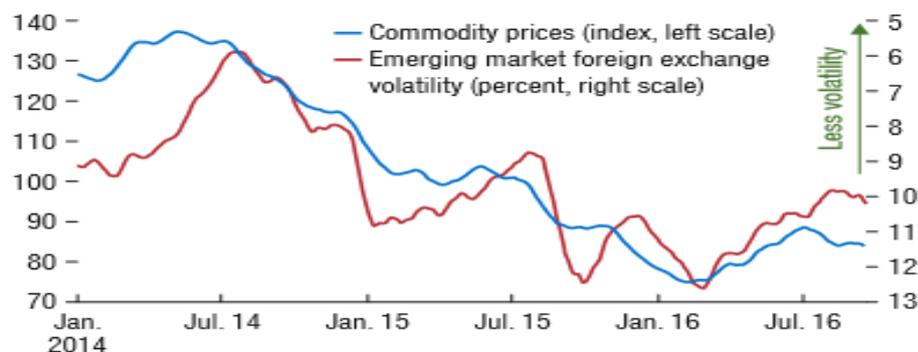
Moreover, disruptions could stem from portfolio reallocations by large, opportunistic investment funds. For example, multisector bond funds have sizable holdings in many emerging markets, and a sharp unwinding of their positions could severely affect funding and liquidity conditions in some emerging market economies:

⁴²www.worldbankgroup.com/default/main



Picture-2.24. Concentration of foreign market bond holdings of largest fund family owner(percent of total bonds outstanding)⁴³

On the other hand, commodity prices have also impact on exchange volatility for emerging market. Because, foreign exchange rate in the emerging market is of high concern in today's economic globalization. In this case, the most important problem of the emerging markets is to stabilize the exchange rate in the country and attract foreign direct investors into the financial market:

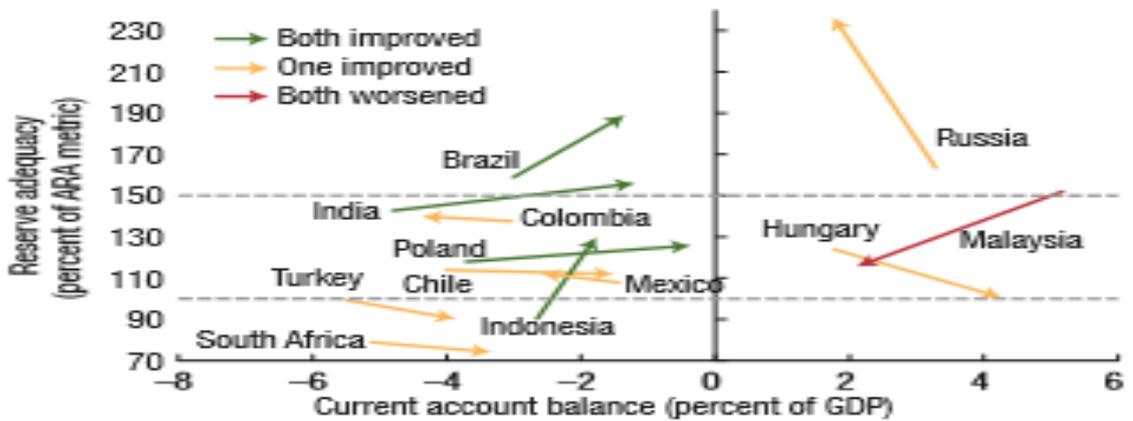


Picture-2.25. Commodity prices and emerging market foreign exchange volatility(twenty-day moving average)⁴⁴

Since the taper tantrum in 2013, many emerging market economies have reduced external imbalances and strengthen policy buffers. It can be seen from the picture-2.26 that most of the developed and developing countries are suffering from lack of assets in financial markets and always thinking about solving this problem by setting some kinds of rule. Picture-2.26 below can show us the trend:

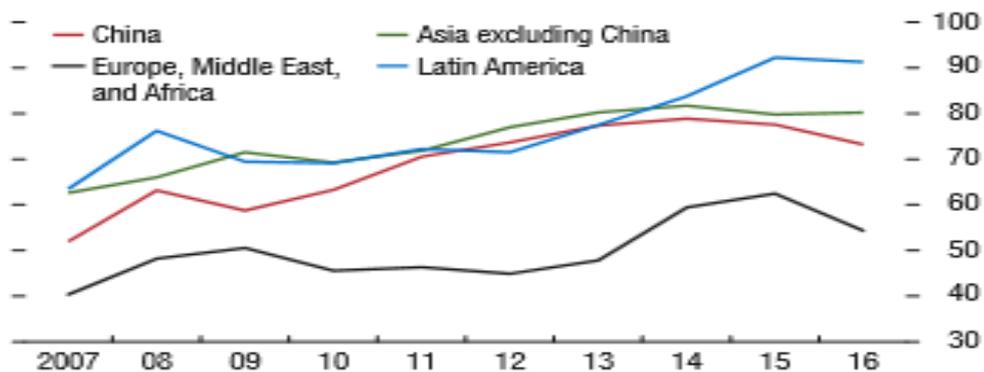
⁴³ www.worldbankgroup.com/default/main

⁴⁴ Financial Stability Report, 2016(IMF) P.48



Picture-2.26 Current account and foreign reserves adequacy change 2012 and 2016⁴⁵

Furthermore, credit booms have begun to wane. At the same time, corporate leverage has started to decline, but remains elevated and this trend can be seen in the picture-2.27 below:



Picture-2.27 .Emerging market economy corporate leverage. 2007-2016(debt to equity, percent)

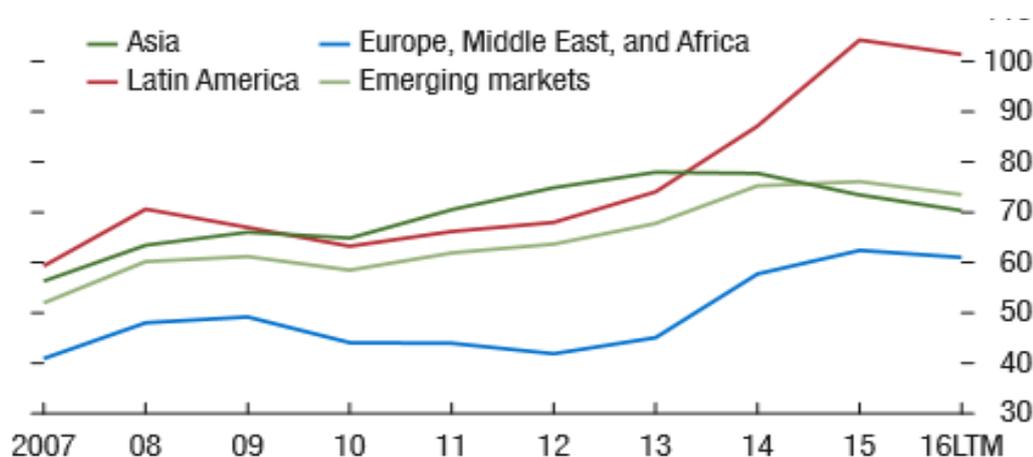
These developments have enhanced the resilience of emerging market economies, while their overall growth is projected to rise from 4.1 percent in 2016 to 4.5 percent in 2017. This increase is driven mainly by gains in commodity exporters, while a number of countries still face more challenging growth prospects⁴⁶

Nonfinancial corporate credit in emerging market economies rose substantially following the global financial crisis (picture-2.28). Many firms

⁴⁵ Bloomberg L.P.; Haver Analytics; IMF, World Economic Outlook database; JPMorgan Chase & Co.; S&P Capital IQ; and IMF staff calculations. Note: ARA = Assessing Reserve Adequacy; EM = emerging market.

⁴⁶ WEO(World Economic Outlook,) April, 2017(www.imf.org)

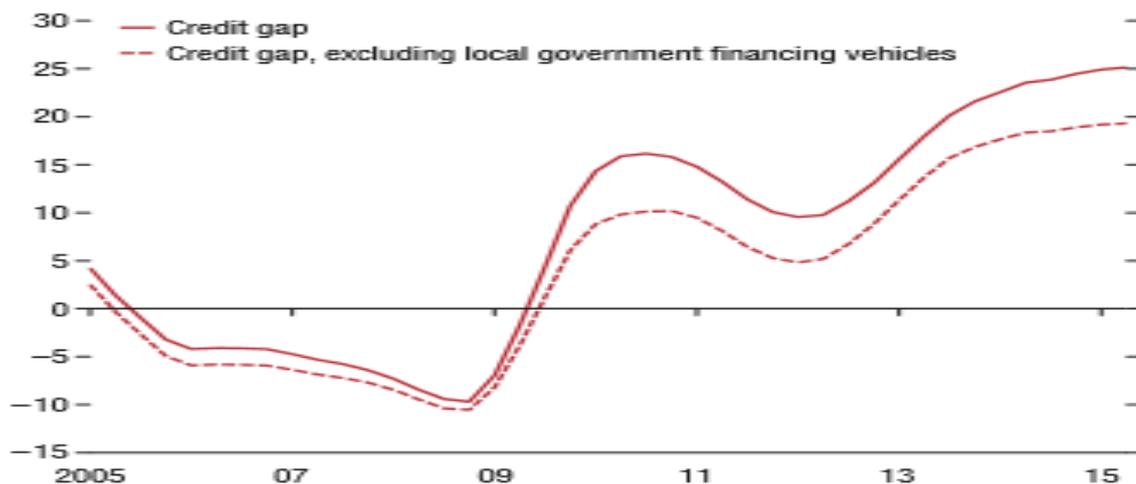
increased balance sheet leverage substantially, aided by low rates and easy financial conditions. The subsequent downturn in commodity prices in 2012, and especially the plunge in oil prices since the second quarter of 2014, notably reduced the profitability of commodity firms and their suppliers. In many Latin American countries, leverage is high, but corporate debt is very concentrated, with the top 10 companies in most economies accounting for a majority of the debt stock. The decline in global commodity prices spurred an initial phase of capital-expenditure-related deleveraging. Overall, however, emerging market corporate leverage is elevated as measured by the share of debt to equity (75 percent in 2015). The amount of debt-at-risk (debt of firms with earnings¹³ below their interest expenses) across emerging market economies is estimated at \$430 billion, or 11 percent of total corporate debt, and remains elevated compared with earlier years. Commodity firms, dominated by state-owned enterprises in many countries, are among the most vulnerable, elevating risks directly to sovereign balance sheets (the corporate-sovereign nexus). This can be cause for fiscal concern and can have second-order effects on other firms via the supply chain. Excess corporate debt also increases risks to banks. The majority of the stock of emerging market corporate debt, some \$19.6 trillion out of \$25 trillion, resides on the balance sheets of domestic banks:



Picture-2.28. Debt as a share of equity(percent)⁴⁷

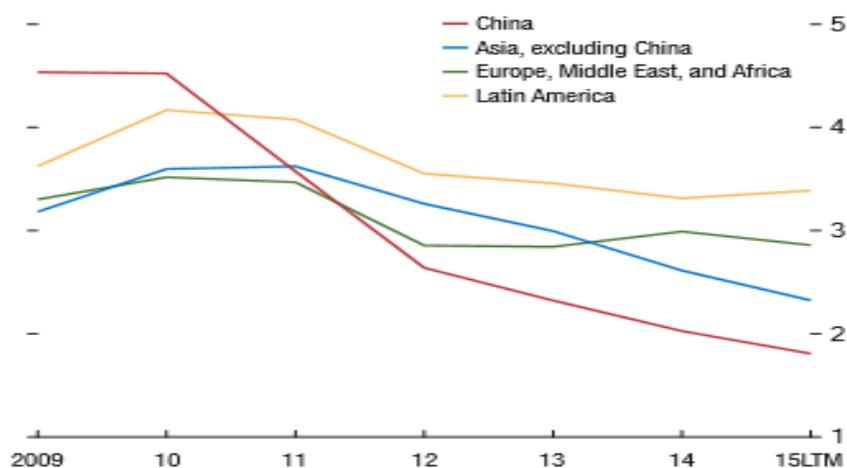
China and Emerging Market Economies: Credit and Profitability

⁴⁷ Financial Stability Report, 2016(IMF), P.48



Picture-2.29 China: credit overhang⁴⁸

Despite progress on economic rebalancing, corporate health is declining. Chinese corporate profitability has eroded during the past five years. This decline reflects structural features stemming from years of easy credit and overinvestment as well as cyclical factors— falling margins, declining investment income, and lower asset turnover—related to the weaker economic environment. China’s domestic credit boom, which has resulted in a large credit overhang (in the range of 25 percent of GDP; picture-2.29 drove excess capacity in “old economy” sectors (such as mining, energy, steel, and other industrials).



Picture-2.30. China and emerging market economies: return on assets(percent, median)⁴⁹

⁴⁸ www.imf.org/credit/main

⁴⁹ www.imf.org/assets/main

Along with a slowing Chinese economy and dampened global demand, this overhang has contributed to sustained low prices, downward pressures on production volumes, and lower profits and picture-2.30 shows The correction of oversupply in the Chinese property market has added to these strains through falling prices and lower demand for basic materials. These forces appear to be entrenched, underscoring the likelihood of continued balance sheet weakness and thus broader financial stability concerns. It is clearly seen from picture 2.30, the return on assets for several selected area and the figure for all selected area face a downward trend and the percent for China declined dramatically.

Summary

Recently, financial volatility returned because of various concerns in the marketplace – including (just to name a few) shifting expectations of the shape of the Federal Reserve’s exit path from ultra-low interest rates and the rapid strengthening of the US dollar; the launch of quantitative easing by the European Central Bank and its impact on inflation expectations and bond markets; low and volatile oil prices; China’s growth slowdown, additional stimulus and financial-sector challenges; the standoff between the new Greek government and its creditors; and continuing geopolitical turmoil. In this context, EMDEs face six interrelated financial challenges, although it is important to note significant differences between countries exist:

First: Prolonged extraordinary monetary policies (EMPs) in developed countries and the prospect of asynchronous exits create a wide range of global financial market challenges. EMPs in developed economies created an environment of ultra-low interest rates, as policymakers have aimed to rekindle economic growth and battle disinflationary pressures.

Second: EMDE external debt exposures have grown to record highs, making some EMDEs more vulnerable to shocks. Since 2009, large search-for-yield flows from developed markets reached EMDEs, in part driven by EMPs.

Third: The impact of the oil-price decline and increasing oil-price volatility will produce winners and losers in EMDEs with implications for financial markets and flows.

Fourth: The process of global rebalancing has produced weak aggregate global demand with potentially disruptive implications for global financing patterns and growth prospects. Before 2008, distorted global savings and investment dynamics produced record-high current-account imbalances, triggering unsustainable cross-border financing patterns.

Fifth: High global debt levels pose challenges to an orderly deleveraging process and exacerbate weak growth and disinflation pressures.

CHAPTER III. POSSIBLE METHODS IN PROVIDING STABLE DEVELOPMENT OF FINANCIAL MARKET IN UZBEKISTAN

3.1. Impacts of global financial crisis to financial market of uzbekistan

During the financial crisis in the most developed countries warns to pay attention in the development of financial markets in developing countries including Uzbekistan. In this case, Improving the stabilization of the financial market has become one of the most important issues for Uzbekistan at the time being. According to the economic research which has been conducted in Uzbekistan shows evolution of development in financial market consists of five possible stages.

Table-3.1

ESTABLISHMENT AND DEVELOPMENT STAGES OF FINANCIAL MARKET IN UZBEKISTAN⁵⁰

Stages	Years	Structural changes in financial market of Uzbekistan
The first stage	1991-1993	Establishment of fundamental and conceptual base of the national financial market in Uzbekistan
The second stage	1994-2000	Providing opportunities in stimulation of financial market in Uzbekistan and allowing competitive atmosphere for financial market
The third stage	2001-2006	Conducting free market trade for financial market and developing of new segments of it
The fourth stage	2007-2010	Increasing capitalization of financial market in Uzbekistan
The fifth stage	2011-till present	Improving the stabilization of financial market and providing high rate growth by reaching high eye-catching results

Now we can conclude each stage for the evolving of financial market in Uzbekistan. For example, in the first stage, two-stage banking system was established in financial market which allowed to have a stable working process in the stimulation of financial market in Uzbekistan. In this case, national currency was also issued by

⁵⁰ Prepared by author according to E.D. Alimardonov, M.B. Sul-tonboyeva, S.A. Abdulaev: "Global moliyaviy-iqtisodiyinqirozsharoitidamoliyabozoribarqarorliginitalar'minlash: nazariy-konseptualvaamaliyjihatlal" T: "Akademnashr", 2012, P.299

the central bank and it was the most important step towards the prosperity of financial market in Uzbekistan. Moreover, officially, Tashkent security and stock exchange market started its process in our country along with the law of “about securities and stock exchange”. This stage was useful in terms of enhancing the insurance market along with the law of “about insurance” and privatization process took place in the first stage of financial market evolution in Uzbekistan.

In the second stage, sector banking system, commercial and private banks as well as corporate management mechanism were established and developed. In addition, new national currency, sum was officially issued in Uzbekistan. Therefore, in the same law so many laws such as “about central bank of Republic of Uzbekistan”, “about bank and bank issues” were signed by the legislation authority of Uzbekistan. Wide range of privatization process took place at that stage which led to the development of stock market in Uzbekistan. On the other hand, government started to issue short-term obligation for citizens in order to stimulate the economy as well as financial system of Uzbekistan

At the third stage, reforms at banking system was strengthened, as the result, electronic system of cash flow was established in Uzbekistan. At that stage, deposit certificates, corporate obligations, obligations of central bank and mid-term treasury bonds occupied the important segment of financial market in Uzbekistan. Moreover, insurance system was reoriented to the life insurance and their turnover got higher points at the third stage.

At the fourth stage, during the modernization of economy in Uzbekistan, capitalization of banks was conducted; possible reforms were offered in order to avoid the global financial crisis. In addition, interference of banks in the national financial market was guaranteed; participants of stock market were allowed to have free trade process; equity of insurance companies was increased, offered some ways of improving life insurance process.

At the fifth stage, offered some methods of improving the stabilization of financial market and providing high rate growth by reaching high eye-catching results and they are in the process nowadays as well. Banking system, microfinancing,

improvement non-banking sectors have been productively working and infrastructure of financial market has been strengthening till these days. Capitalization of commercial banks has been enhancing, extra mandatory economic norms for non-banking organizations has been conducting in Uzbekistan till the time being in order not to run across the shortage of financial resources in the future.

On the other hand, according to the evolution of financial market in Uzbekistan, we can conclude that the development of financial market is well-organized and it is being developed at the time being as well. In order to prove our statement, Uzbekistan has relatively good liquidity indicators. Its gross official reserves in 2015 were close to \$24.4 billion or 38.4 percent of GDP(Gross Domestic Product). The gross external debt to GDP ratio was about 16%. While the government has declared full commitment to honoring its obligations under IMF(International Monetary Fund).⁵¹

The Law on the Securities Market requires businesses that issue securities to publish annual reports, which should include a summary of business activities for the previous year, financial statements with copy of an independent audit, and material facts on the activities of the issuers during the corresponding period. The average capital adequacy ratio of local banks exceeds 23.3%, and the liquidity rate is 64.5%(as January 1, 2016). From 2009 through 2013, the government initiated a 40% increase in state-owned bank capitalization and encouraged private banks to do the same. In January 2016, the banking sector's capitalization was about \$2.9 billion and the value of total bank assets in the whole country was equivalent to \$24.4 billion. Included in this amount are the assets of the two largest-owned banks, which together hold more than \$15 billion.⁵² These figures are directly linked with the active actions and trade opportunities of commercial banks in the financial market and they hold the leading position in the market as whole.

Moreover, the main famous approach of the financial market of Uzbekistan is that the tremendous members such as commercial banks are ranked by the highly confirmed agencies in the world. Those agencies such as "Mudis" offered in the

⁵¹ Information is derived from the State Department's Office of Investment Affairs(investment climate statement)

⁵² www.cbu.uz/uzc

three simultaneous indicators such as banking stability, national currency and long-term stability which were given to the Uzbek banks as “Stable”. In the financial market of Uzbekistan, some branches of that agency such as “Fitch”, “Standard and Pors” confirmed most of the Uzbek commercial banks as “stable” and the percentage of them reached to 90%.⁵³

Nowadays, turnover of corporative securities is increasing in Uzbekistan at the time being. But the share that type of financial market in the whole financial market in the country is very small. In terms of the tendency in the international financial markets, this corporative security market has an intensive role in the market. *Role of stock exchanges in economic development of Uzbekistan* The stock exchange in Uzbekistan is in the stage of formation. With the recent legislative changes to improve the regulation of corporations and corporate governance government want to accelerate reforms and decrease state participation in economy.

Stock market capitalization of about 50% of GDP(Gross Domestic Product) and more is an indication of a well-developed stock market. Yet, in most countries the stock market almost does not exist and its close to zero⁵⁴

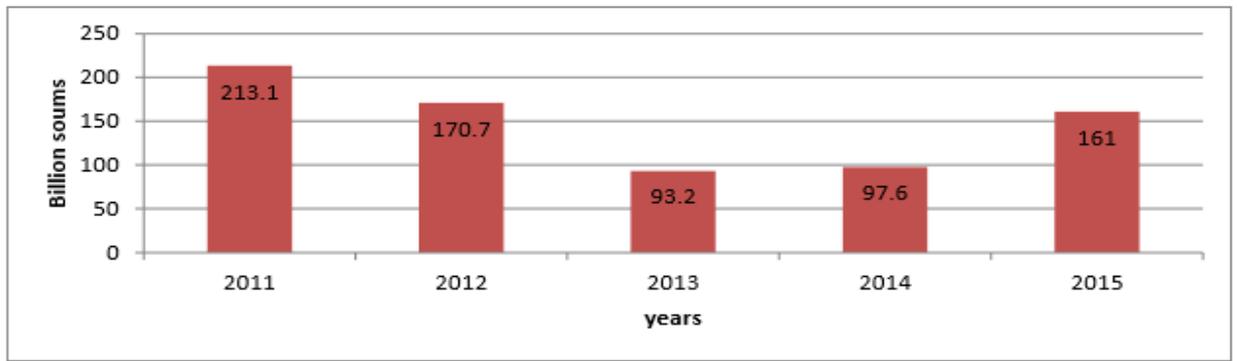
The stock market capitalization is calculated as the number of shares traded on the stock exchange times their prices. It is a measure of the size of the stock market in the country. It is usually reported as percent of GDP(Gross Domestic Product) so that we can evaluate the size of the stock market relative to the size of the economy.

The results of Uzbek government effort to revive the market it shows some signs of improvement. For instance, at the end of 2015 the number of concluded deals at the Republican Stock Exchange “Tashkent” has reached a record high in the last five years-2794 deal, which is more than three times the figure for the same period in 2014(893 deals).⁵⁵ The steady rise can be seen in total market turnover which is reached in 161 billion UZS in 2015:

⁵³ www.cbu.uz/uzc

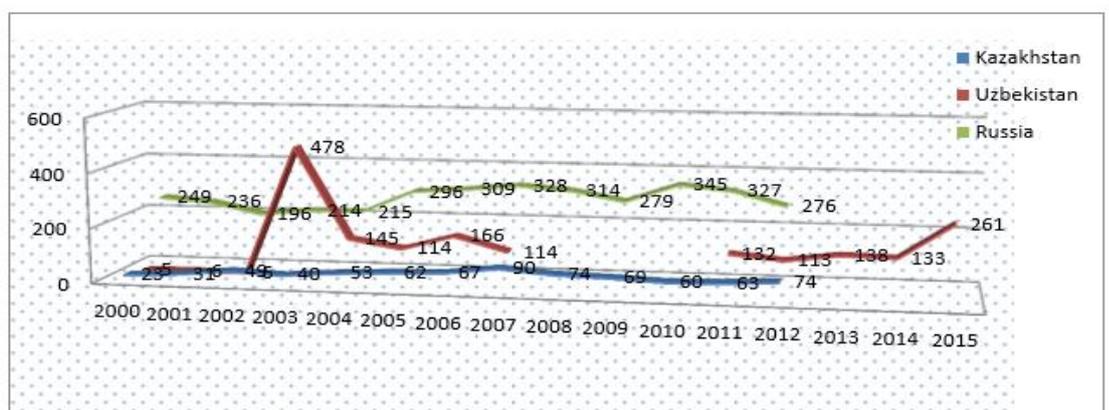
⁵⁴ www.cbu.uz/uzc

⁵⁵ www.uzse.uz/data



Picture-3.2. Deal concluded in stock market, billion UZS⁵⁶

In addition, the other positive indicator of stock market can be seen in increased number of listed companies in Uzbekistan from the beginning of 2015. The 128 new companies were included in the quotation list, and at the end of 2015 their number reached to 261 (picture-3.3). The data for Uzbekistan is not provided for 2008-2010, however the figure presents the positive trend comparing for other studied stock markets. The analysis of quality indicators of listed companies shows that the 24 joint stock companies meet the requirements of category “A”, 28 of them meet the requirements of category “B” 177- in category “C” and 32- in category “P”⁵⁷. Among the listed companies- commercial banks, insurance companies of oil and gas, production of construction materials, agriculture, energy, metals and others. The figure-17 shows the number of listed companies of selected countries and their position from 2000 till 2015:



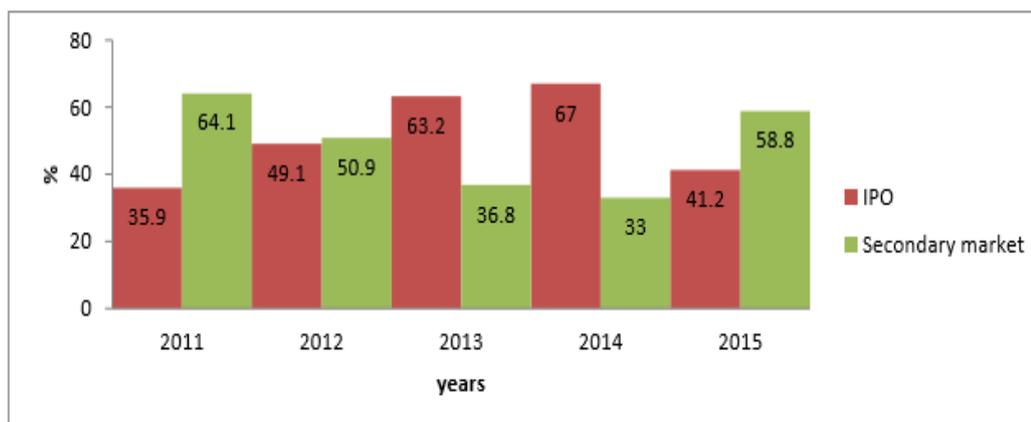
Picture-3.3 Number of listed companies of selected countries⁵⁸

⁵⁶ This table is done by the author in terms of statistics in www.uzse.uz

⁵⁷ www.theglobaleconomy.com/Uzbekistan

⁵⁸ prepared by author on the basis data from Stock Exchange Review, 2015 and www.theglobaleconomy.com/Uzbekistan

The study reveals that in the structure of total exchange turnover secondary market securities is dominated 58.8% of the total turnover or 94.7% billion UZS(picture-3.4), or the absolute turnover of this market rose almost 3 times in comparison with the year 2014(32,2 mlrd UZS)



Picture-3.4. Stock market structure, Uzbekistan⁵⁹

At the same time, a slight decrease in investment activity from individuals, whose share in the stock exchange turnover amounted to 18.2% or 18.6 billion UZS.⁶⁰ Analysis of IPO market results that 7 out of top 10 IPO are made by banks and this situation can be explained by remaining high interest from investors to this sector(table-3.5)

Table-3.5

TOP 10 IPO'S IN UZBEKISTAN IN 2015⁶¹

Name of company	Industry	Volume bln UZS
Ipoteka bank	Banking	56,5
Infinbank	Banking	15,7
Aloqabank	Banking	13.7
Trastbank	Banking	13.1
Asia Alliance Bank	Banking	12.6
O'zsanoatqurilishbank	Banking	11.7
Qo'qonyog'-moy	Food industry association	6.4
Kapitalbank	Banking	5.0
Qo'qonyog'-ekstraksiyazavodi	Food industry association	5.0
Turonbank	Banking	4.1

The analysis of sectorial structure of stock markets is also important, because it's a good indicator showing how stock market represents the whole economy. Thus, the

⁵⁹ www.uzse.uz/data

⁶⁰ www.uzse.uz/data

⁶¹ www.uzse.uz/data

analysis considers the sectorial structure of Uzbek stock exchange in 2015. In this case, bank securities were the most traded assets for the 2015 totaling 87.8% of all trade, followed by agroindustry sector with 7%. And, all other sectors of economy even could not made 5% of trades. This evidence's previous studies(U.Burkhanov, M.Maitah and Kh.Amonov, 2015) that the economy lacks of well diversification and need further reforms towards to market liberalization.

On the other hand, table-3.6 illustrates us the top 10 of sales transactions for the period of 365 days:

Table-3.6

Top 10 sales transactions for the period of 365 days⁶²

ISIN	Isu Name	Currency	Parval	Trading Value(UZS)
INFB UZ7055560005	ATB "Infinbank"	UZS	1000	13,172,465,000
SVDB UZ7037610001	AT" Savdogarbank"	UZS	100	7,999,999,744
KUYM UZ7018290005	"Qo'qonyog'-moy" AJ	UZS	3,970	7,770,203,900
TKTN UZ7009280007	"Turkiston" XATB	UZS	1,000	4,532,002,000
AABK UZ7055790008	"Asia Alliance Bank" ATB	UZS	250	4,345,517,280
FGSS UZ7051770004	"Farg'onago'sht-sutsavdo" AJ MSMTVAG'K	UZS	2,337	3,204,500,000
ALSM UZ70453220007	"Alskom" SK AJ	UZS	1,380	2,300,747,700
A054570	"Ipoteka bank" ATIB	UZS	1	2,175,490,749
TNBN UZ7035530003	"Turonbank" ATB	UZS	1,700	2,031,987,800
MFSK UZ7055990004	"Marg'ilon Fayz savdo kompleksi" AJ	UZS	1,000	1,162,818,050

It is clearly seen from the table that infinbank has hold a leading position in the transaction operation among other participants of the financial market. it means that most of participant of financial market have been interested in the stocks of infinbank and this tendency can help to flourish the development and prosperity of the bank in the future. However, it is surprisingly illustrated that savdogarbank has also attended to the race of transaction and it has hold the second position which is unbelievable. Because, it was not listed in the top 10 IPOs in 2015, but in this year the bank has managed to get high value of transaction in the end of 2016.

It is noteworthy to say that some organizations such as "Farg'onago'sht-sutsavdo" and "Marg'ilonFayzSavdokompleksi" are willing to be an active

⁶²www.uzse.uz/data

participants of financial market and they have been listed in the top 10 high level of transaction in 365 days. In this case, table-3.7 can show us the top 10 on the number of transactions for the period-265 days:

Table-3.7

The top 10 on the number of transactions for the period-365 days⁶³

ISIN	Isu Name	Currency	Parval	Trading Count
A047230 UZ7047230006	“Navoiyagrokimiyohimoya” HAJ	UZS	3,290	254
MFSK UZ7055990004	“Marg’ilon Fayz savdo kompleksi” AJ	UZS	1000	248
HMKB UZ7011340005	“Hamkorbank” ATB	UZS	155	180
ELQQ UZ7007130006	“Elektrqishloqqurilish” AJ	UZS	5000	86
AGM1 UZ700055K015	“Olmaliq KMK” AJ	UZS	3,914	64
TNB1 UZ703553K016	“Turonbank” ATB	UZS	1,700	53
SQBN UZ7037560008	“O’zsanoatqurilishbank” ATB	UZS	3,382	47
QZSM UZ7029000005	“Qizilqumsement” AJ	UZS	1,570	45
GRNT UZ7004770002	“Granit” AJ	UZS	2,178.57	35
ZPLS UZ7055190001	“ZPS”	UZS	100	33

What stands out of this table is that “Navoiyagrokimiyohimoya” HAJ has managed to have more than 250 trade agreement which is of high concern for the future development of the company. Therefore, this organization has been the most popular in trade count among other participants of financial market in Uzbekistan. Moreover, “Marg’ilonFayzsavdokompleksi” AJ has been the second most popular in that issue while “Hamkorbank” ATB has been the third most popular. To be more precise, the trade count of “Marg’ilonFayzsavdokompleksi” is 248 which is 6 less than those of “Navoiyagrokimiyohimoya” HAJ. Meanwhile, “Hamkorbank” ATB has hold its respectful position in this sphere and has got 180 trade count among the most important participants of the market. However, Middle line of the table is owned by various organizations such as “Elektrqishloqqurilish” AJ, “Olmaliq KMK” AJ, “Turonbank” ATB, as well as “O’zsanoatqurilishbank” ATB. These participants have hold respectful position in top 10 transaction within the year, in this case “Elektrqishloqqurilish” AJ has done 86 transactions while the figure for “Olmaliq KMK” AJ has been merely 20 less than those of “Elektrqishloqqurilish”

⁶³ www.uzse.uz/data

AJ. On the other hand, the trade counts of “Turonbank” ATB, as well as “O’zsanoatqurilishbank” ATB have been 53 and 47 respectively. This means that those 4 participants mentioned above have also made a great deal of transactions in the financial market within 365 days and held well-organized position in the market. On the other hand, the bottom lines of the table are run by “Qizilqumsement” AJ, “Granit” AJ and ‘ZPS” organizations. In this case, “Qizilqumsement” AJ has got 45 trade counts in this year while “Granit” AJ has managed to sign 10 less trade counts than those of “Qizilqumsement” AJ. In contrast to them, ‘ZPS” has held the least popular position in the trade count among top 10 of financial market in Uzbekistan. In other words, it has signed the least number of trade counts which is 33 in this year. But it doesn’t mean that it is the less active participant of financial market, the table only illustrates the top 10 number of transactions in this year. So it means that, ‘ZPS” has been known as the one of the most important participant of financial market in Uzbekistan.

According to the table-3.7, we can conclude that overall more than 1000 trade counts have been done by the top 10 participants of financial market in Uzbekistan. It means that the financial structure and strategy of financial market in Uzbekistan work in well-organized plan and establishing new financial tactics and strategies can help to develop as well as flourish the financial market of Uzbekistan.

3.2. Conducting reforms for stable development financial market in uzbekistan.

As the first President of Uzbekistan Islam Karimov said that: “as the result of privatization and authorization in the country, there have been functioned 1100 shareholding companies and capitalization has been 11,7 trillion soums and rose for 5,3 times in 10 years”⁶⁴. At the time being, conducting reforms for the development of financial market in Uzbekistan can be done in so many ways and implementing foreign experiences in the establishment the real, well-organized regulation procedure. In terms of this fact, in order to improve the working process of the financial market, it is highly preferable to offer some regulation settlements for the

⁶⁴ www.moluch.ru/archive/88/17532

country. For example, SEC (Securities and Exchange Commission) plays a very important role in the development of the financial market in the country. In this case, some important features of this regulation should be taken into account in the stabilization of the financial market in Uzbekistan such as:

- Firms or commercial banks must publicly disclose all information about themselves that could affect the value of their securities;
- Employees of firms may take positions in their own firm's securities only during the periods when they do not know of inside information that will affect the value of the firms once the information becomes public;
- Participants in security markets who facilitate trades must work in a fair and orderly manner.

The regulation prevents abuses that would give someone an unfair advantage over the other investors and therefore could reduce the willingness of investors to invest in security markets. Therefore, SEC regulations allow all investors to have the same access to public information. The focus of this kind of regulation is on sufficient disclosure rather than on accuracy, as it relies on auditors to certify that the financial statements are accurate.

In terms of regulation, SEC can provide the transparency of the information in the financial market which is very important during the decision of investors whether to enter the financial market or not. Therefore, if Uzbekistan can settle such kind of regulatory authority only in the financial market, so the interests of foreign investors in taking part in the financial market of Uzbekistan can go northward. Dealing with these kinds of regulatory system, the following concepts can be more preferable to attract the foreign financial resources in the financial market of Uzbekistan:

- Establishing financial market institutions which are acceptable with the requirements of international standards in order to attract financial resources in the market. In this case, raising the capitalization in line with paying attention at the right of property, realizing the huge investment projects concerning with market development;

- Establishing various types of funds in order to encourage people to use their financial resources in the financial markets by which the turnover in the market can go high and the number of active participants can rise very high in the financial market, enlarging investment amount in the country by increasing capitalization process of financial institutions in the country, enhancing standard of living for society and providing enough financial services for public;
- Governmental authorities should also be responsible in the monitoring the financial procedure in the financial market in terms of liquidity and productivity of the market. In this case, the Ministry of Finance and the Ministry of Economy should have a cooperative projects in the accumulating the foreign investments in the financial market and improving the attractiveness of the financial market in Uzbekistan. In the other words, these governmental authorities should organize some forums which can show the economic and financial potential of Uzbekistan, so that most of investors can be eager to invest their financial resources in financial market of Uzbekistan.



Picture-3.8. Stages of settlement conceptual basement in financial market⁶⁵

Financial market concept is able to merge the potential possibilities of participants in the financial market. Financial market strategy consists of following issues:

⁶⁵Prepared by author according to E.D. Alimardonov, M.B. Sultonboyeva, S.A. Abdulaev: "Global moliyaviy-iqtisodiy inqirozsharoitidamoliyabozoribarqarorligininta'minlash: nazariy-konseptualvaamaliy jihatlari" T: "Akademnashr", 2012, P.299

- Enlarging the size of financial market;
- Providing efficiency in financial infrastructure;
- Establishing comfortable tax privileges;
- Improving the legislation system which enhances the productivity of financial market;
- Increasing the productivity of financial market;
- Providing high rate of financial services for citizens and foreign investors.

Financial market tactics can be identified by implementing stage by stage the reforms mentioned above in financial concepts. In order to realize the reforms, government should settle some possibilities in attracting foreign investors for accumulating foreign investment in the financial market. Moreover, inner financial resources should be re-oriented in the economy. Therefore, implementing inner funds for the growth of economy can lead to stimulating the strong financial market infrastructure. In order to improve the working process in the financial market, Uzbekistan should continue to settle huge amount of investment projects and create comfortable taxation system for gaining foreign investment. On the other hand, protecting the rights of participants and foreign investors can be priority for enhancing the financial market.

Pros and cons in management financial market. It can be identified by overviewing the result of financial strategy and tactics. In this case, following objectives should be taken into account:

- Creating sufficient system in the stimulating the financial market and providing productivity of it;
- Increasing the competition in financial market;
- Strengthening the control system in financial market.

On the other hand, government should cooperate with international financial organizations in order to have an economic growth and to finance long-term investment projects. In other words, there are some possible concepts which are taken into account for reaching that position:

- Allowing commercial banks to use the government owned share of capital for gaining profit in order to invest long-term investment interests;
- Reducing the discrimination of inner and other investments in condition with increasing middle-term capitalization in banks;
- Returning the deposits as well as capitals of both households and organizations which were oriented for financing the real sector of the economy;
- Establishing the authority of risk management in the country and signing the laws which can be taken into account the objectives and functions of that organization;
- Settling more methods of evaluating the risk for all organizations and financial institution in order to get rid of some volatility;
- Avoiding the financial “bubble” in the financial market and eradicating the disbalance in the economy;
- Reducing the risk of reinsurance, improving the liquidity of commercial banks and reducing the share of external debt.

In this case, some features in the economy and financial system which lead to the financial crisis should not be forgotten in the country. Therefore, securitization and implementation of new restriction in the economy can help the government to get rid of those risks in the economy. Losing the control over securitization of economy can lead to financial fragile and economic collapse for the country and eventually government can face an economic and financial crisis. Moreover, the way of securitization in some developed countries cannot be suitable for our country. For example, we can conclude from financial crisis in the Russian Federation within 1997-1998. At that time, the government debt of United States of America was high, but the economy did not go into the financial and economic crisis. However, no matter the fact that the government debt of Russian Federation was not so relatively high, but the economy went to crisis.

In our point of view, following concepts should be taken in account in order to develop the financial market in Uzbekistan:

- According to the Maastricht Treaty, the GPD(Gross Domestic Product) of the country should not exceed over 30% in order to develop the economy;
- The proportion in turnover of derivative market to primary market should not be more than 90%. According to the recent tendencies in the Western countries, the high rate of turnover in derivative market to primary market can lead to the immediate unbalance in the value of derivatives in the financial market. This approach can lead to the determination of primary market prices and influence negatively to participants' decision;
- General and short position of financial market participants. In terms of capital of participants, the proportion of capital and the amount of stocks should not exceed 70% while the rate of securities to the “depo” deposit securities should not exceed more than 80%. To be more precise, sometimes, the short-term positions of participants lead to the 100-170% of their capital and they are taking a risk in a short term. Therefore, settling the fixed share of capital in securities can be beneficial in a long-term position of participants in the financial market. Moreover, the price of securities can change dramatically in a short-term which can make a “shock” in the financial market and participants who take a short-position in the market can collapse because of fluctuation in the market. in this case, according to the practical issue, the cost of security can reduce up to 20% in a day and up to 40-45% in a 4 day period. If investors orient their all 100% financial resources in the market, then they will face too bankruptcy because of price oscillation in the financial market. Currently, most of investors are capable of buying securities in a long-term as a loan and sell them when the price goes down. The growth of short-term position in the market can mean the “game” in price competition in the financial market and this situation can show some aspects of crisis for both economy and financial system in the country;

In my point of view, Ministry of Finance, Central Bank should be in charge with controlling mentioned above indicators of financial market and evaluating the risk in the market. In this case, investments funds are seen as the main professional

participants of financial market in Uzbekistan. Investment funds are established for accumulating the financial resources and reorienting them in security markets or making an investment in some sectors of economy. The process of investment funds in our country was legalized by the 220 number decision of establishing investment funds procedure in 1996 June 18 and this decision was signed Cabinet Ministry. This decision helps them to work in terms of following laws and documents:

- Instruction of investment funds;
- Instruction of privatization investment funds;
- Capital of the fund;
- Sample agreement of fund with depository;
- Sample prospects of funds issues;
- Methodology of establishing financial objectives of the fund;
- Instruction of accounting for investment funds.

410-decision of “improving the procedure of investment and privatization investment funds” was signed by Cabinet Ministry on September 25, 1998 and instruction of Privatization investment funds were the primary steps towards stimulating the working process of privatization investment funds in Uzbekistan. This instruction can consist of issuing securities, buying or selling the securities, being responsibility against the investors and shareholders, and ending the working process of privatization investment funds.

Privatization investment fund is open venture company which has following processes to implement:

- Attracting the financial resources of companies which are going to have privatization process by issuing the stocks and reorienting own financial resources and bank credits to investment;
- Conducting the buying and selling procedure of securities;
- Putting towards all efforts in order to flourish and prosper the companies in which privatization investment funds hold a share.

As the important feature of privatization investment funds can be followings:

- They can buy up to 30% of shares of companies which are going to have a privatization procedure;
- They are able to invest up to 10% of their capital to invest in one stock;
- Privatization investment funds are closed investment funds which don't have a responsibility of buying issued stocks from participants in financial market;
- They have a right of getting special credit from government;
- Privatization investment funds can only invest their financial resources in companies which are going to have a privatization procedure.

Summary

There are some important features which can be taken into account for summarizing this chapter:

Table-3.9

SWOT analyze of financial market in Uzbekistan⁶⁶

<p>Strengthens:</p> <ol style="list-style-type: none"> 1. Getting rid of high-risk in line with government control; 2. Having developed, sustainable financial strategies against international financial crisis. 	<p>Weaknesses:</p> <ol style="list-style-type: none"> 1. Low diversification of financial services for consumers; 2. Slowly development of national security market compared to segments of financial market.
<p>Opportunities:</p> <ol style="list-style-type: none"> 1. Return of equity is at high rate in financial market; 2. A lot of privileges and preferences are given for foreign investors in financial market. 	<p>Treaties:</p> <ol style="list-style-type: none"> 1. The most concentration of financial market is oriented to commercial banks; 2. Geographical distribution of financial services in the financial market is not equal

In this case, table-3.9 shows us the analysis of financial market in Uzbekistan and its developed features as well as some weaknesses which should be taken into consideration. For example, low diversification of financial services for consumers: it means that there is a gap in providing high-level of financial services between financial institutions and consumers in the financial markets. Therefore, government

⁶⁶Prepared by the author

should try to implement some reforms into practice in order to eradicate this gap for the development of financial market in Uzbekistan.

Table-3.10

SWOT analyze of financial market in developed countries⁶⁷

<p>Strengthens:</p> <ol style="list-style-type: none"> 1. High diversification of financial services for consumers; 2. Highly development of national security market compared to segments of financial market. 	<p>Weaknesses:</p> <ol style="list-style-type: none"> 1 Having a risk of being induced by financial crisis in the financial market 2 Not having developed, sustainable financial strategies against international financial crisis.
<p>Opportunities:</p> <ol style="list-style-type: none"> 1. Return of equity is at high rate in financial market; 2. Promoting Global Growth and Stability 	<p>Treaties:</p> <ol style="list-style-type: none"> 1. Straightly connected with external fluctuations in financial markets 2. The development of debt and stock market is higher than that of long-term risk based regional strategies

On the other hand, table-3.10 shows the SWOT analyze of financial markets in developed countries. And it is clearly seen from the table-3.10 that the prior reason behind the riskiness for financial markets in developed countries is the effect of financial crisis on the markets. In this case, developed countries' financial markets are very sensitive in terms of some financial uncertainties and participants of financial markets always try to avoid those risks concerning to the financial operations in the financial market

⁶⁷Prepared by the author

CONCLUSION.

Taking all aspects into consideration, we can conclude that current trends in international financial markets, some important features of theirs can be of high concern in stimulation the financial system all over the globe. As we have witnessed from analysis above, most of the time regulatory framework plays crucial role in the shifts of international financial markets. To be more precise, policy rates have opposite correlation with development of international financial market. indeed, when the policy rate is high, it means that financial market is overregulated and it can be embraced by the politics. Some changes in the world of politics also lead to financial vulnerability and fragile for international financial market. Therefore, financial regulation and deregulation should be eradicated from the development of international financial markets.

On the other hand, policy rates should not affect the stimulation of international financial markets. Regulatory framework should be taken into consideration in terms of governmental issues and resolving those. In this case, political disagreements can exist among developed countries and those also affect the working process of international financial markets. Therefore, markets should be integrated too deeply in the bilateral agreements between countries or some objective factors should not influence negatively the financial markets. Because, indeed, investors and participants of financial markets are too sensitive about their investments. They always want to find out some other privatization for their cash flow or financial resources. In this case, some political changes in the world can make them worry about future prospects of their investment in the market and they can think about taking the money out of that market. Therefore, regulation in financial markets should not have negative impact on decision of participants of the financial markets. In order to avoid this kind of risk, there are some possible ways to reorientation of regulatory framework in which financial market can take a benefit:

1. *Managing the impact of corporate distress*—Slower growth and corporate strains will erode banks' asset quality. Policymakers should proactively monitor and address corporate vulnerabilities, particularly those arising from

excess leverage. Swift and transparent recognition of nonperforming assets is central to ensuring future banking system health. Some, such as India, are taking steps to reduce nonperforming loans, but additional and more timely action is needed. Corporate insolvency frameworks should be upgraded (including by facilitating out-of-court settlement and debt-for-equity swaps, with well-defined and transparent rules) and contingency plans to manage corporate distress put in place.

2. *Boosting capacity*—Reforms to macro prudential and supervisory frameworks should be accelerated to ensure timely and effective responses to these challenges. Enhanced supervision of banks will be needed, requiring better coordination among institutions and central banks in some countries.
3. *Ensuring continued access to international financial services*—Strengthened regulatory and supervisory regimes, including by ensuring effective implementation of standards to combat money laundering and the financing of terrorism, would enhance capacity and transparency and help lower risk perceptions in some emerging market and developing economies. Such actions would also help moderate impact from global banks' reduced financial services (derisking)—in correspondent banking activity, for example—and promote greater financial inclusion for these economies.

Those ways which are mentioned above can be useful for future prosperity of international financial markets in terms of having efficient regulatory framework and not affecting the working process of international financial markets by setting up some rules which can create obstacle for participants of international financial markets.

Turning to the conclusion about financial market of Uzbekistan, these offers can be set up for stimulation Uzbek financial market:

1. There are some concepts regarded to financial fragility in the financial market. Therefore, government should set up some possible solutions for solving this kind of volatility. In this case, financial tactics and strategy should be appropriate for developing financial market in Uzbekistan;

2. Some uncertainties we can witness in setting up price for securities in the financial market. In this case, Uzbek financial market should avoid speculative operations and there should be organized some trainings for teaching participants of financial market to know about negative consequences of speculative operations;
3. It is obvious that most of participants of financial market are banks and credit institutions. In this case, government should set up rule for other real sectors to attend financial market and make them be active participants;
4. Financial market in Uzbekistan needs to be more independent in identifying the rate of credit risks and market operation risks. To be more precise, there should be some methodologies which are very useful in risk related issues and to implement those methods in practice for financial markets;
5. It is of high concern that investment funds should be responsible for offering some services for participants of financial market which have not been given by the rest financial institutions such as banks in the financial market;

BIBLIOGRAPHY

I. LEGISLATIVE DOCUMENTS AND METHODOLOGIC PUBLICATIONS:

- 1.1. Constitution of the Republic of Uzbekistan-Tashkent:O'zbekistan, 2017;
- 1.2. Law about security market, Tashkent, Uzbekistan, 22 July, 2008
- 1.3. Law about controlling foreign currency, Tashkent, Uzbekistan, 2004.
- 1.4. Law about foreign investors, Tashkent, Uzbekistan, 30 April, 1998;
- 1.5. Law about foreign affairs, Tashkent, Uzbekistan, 26 May, 2000;
- 1.6. Decree Number-2699 of President of Republic of Uzbekistan for “prognosis of macroeconomic indicators and budget parameters”, Tashkent, Uzbekistan, 2017
- 1.7. Decision Number-4947 of President of Republic of Uzbekistan for “actions strategies for the development of Uzbekistan, Tashkent, Uzbekistan, 7 February, 2017;
- 1.8. Mirziyoyev, Sh,M: “Erkin va farovon, demokratik O'zbekiston davlatini birgalikda barpo etamiz”- T:“O'zbekiston”, 2017, 42p
- 1.9. Mirziyoyev Sh.M: “Tanqidiy tahlil, qat'iy tartib-intizom va shaxsiy javobgarlik-har bir rahbar faoliyatining kundalik qoidasi bo'lishi kerak” –T:“O'zbekiston”, 2017, 30p
- 1.10 Speech of the first President Karimov I.A:“Asosiy maqsadimiz-Vatanimiz taraqqiyoti va xalqimiz farovonligini yanada yuksaltirish”- T: “O'zbekiston”, 2010 P.52

II. PUBLICATIONS, PAPERS:

- 2.1. E.D.Alimardonov, M.B.Sultonboyeva, S,A,Abdulaev: “Global moliyaviy-iqtisodiy inqiroz sharoitida moliya bozori barqarorligini ta'minlash: nazariy-konseptual va amaliy jihatlar” T: “.Akademnashr”, 2012, P.299

- 2.2. Frederic S.Mishkin, Stanley G. Eakins: Financial Markets and Institutions. Seventh Edition, P. 613
- 2.3. Jeff Madura: Financial Markets and Institutions. Sixth edition, P.719
- 2.4. AnjanThakor: International Financial markets: a diverse system is the key to commerce P.152
- 2.5. PWC analysis on the basis of Global financial markets liquidity study. August 2015, P.156
- 2.6. PWC report: Guide to doing business and investing in Uzbekistan. 2016 edition, P. 58
- 2.7. IMF report: Global Financial Stability, 2016, P.48
- 2.8. IMF report: GLOBAL FINANCIAL STABILITY REPORT: FOSTERING STABILITY IN A Low-GROWTh, LOW-RATE ERA, 2016, P.56
- 2.9. Center for financial markets(Milken institute): Capital Markets in Developing Countries, the state of play, June, 2014, P.125
- 2.10. IMF: World Economic Outlook: Legacies, Clouds, Uncertainties, October, 2014, P.243
- 2.11. IMF: World Economic Outlook: too slow for too long, April, 2016, P.230
- 2.12. United Nations report: World economic situation and prospects 2016, P.78
- 2.13. World Bank Group report: Long-term finance, 2015-2016, P. 211
- 2.14. William Wright: The potential impact of BREXIT on European Capital markets, a qualitative survey of market participants. April, 2016, P.16
- 2.15. UlugbekKhalikov: Role of stock exchange in economic development of Uzbekistan, January, 2017, P.14

- 2.16. Thomson Reuters, PwC analysis, Federal Reserve Bank of New York, P.22
- 2.17 ISDA (2014) “MiFID II and MiFIR consultation paper, P.43
- 2.18. Institute of International Finance:“Capital Flows to Emerging Markets”, January,2016, P. 71
- 2.19. Bloomberg, L.P.; EPFR Global; Haver Analytics; IMF, International Financial Statistics database
- 2.20. CEIC Asia database; CEIC China database; Haver Analytics; IMF, Balance of Payments Statistics; IMF, International Financial Statistics; World Bank, World Development Indicators database; and IMF staff calculations. Note: Balanced sample of 45 emerging market economies, P.200
- 2.21. Bloomberg L.P.; Haver Analytics; IMF, World Economic Outlook database; JPMorgan Chase & Co.; S&P Capital IQ; and IMF staff calculations. Note: ARA = Assessing Reserve Adequacy; EM = emerging market;

III. OTHER REFERENCES:

Websites:

- 3.1. www.worldbank.org
- 3.2. www.imf.org
- 3.3. www.globaleconomy.com
- 3.4. www.globalinvestormagazine.com
- 3.5. www.uzse.uz
- 3.6. www.federalreserve.gov
- 3.7. www.finance.com
- 3.8. www.investopedia.com
- 3,9. www.ecb.europa.eu
- 3.10. www.cbu.uz

