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IMPACTS OF COVID-2019 PANDEMIC ON BOND MARKET IN UZBEKISTAN

This article provides information on the factors affecting the Uzbek bond market caused by the coronavirus pandemic, which is spreading around the world and causing economic uncertainty, and their level, as well as measures to address future problems. This article discusses the state and characteristics of the bond market in the context of economic uncertainty, as well as the role of the financial market in attracting foreign capital in our country and the risks that can be caused by a pandemic.

Keywords: financial market, bond market, economic uncertainty, credit market, interest rates

COVID-2019 PANDEMIYASINING O‘ZBEKISTON OBLIGATSIYA BOZORIGA TA’SIRI

Ushbu maqola jahon bo‘ylab tarqlayotgan va iqtisodiy noaniqliklarni yuzaga keltirayotgan koronavirus pandemiyasi sabab O‘zbekiston obligatsiya bozoriga ta’sir etuvchi omillar va ularning darajasi, shuningdek kelgusida yuzaga kelishi mumkin bo‘lgan muamмолarni bartaraftishga yo‘naltirilgan chora-tadbirlar haqida ma’lumot beradi. Ushbu maqolada obligatsiyalar bozorining iqtisodiy noaniqlar sharoitidagi holati va belgilarini, shuningdek mamlakatimizda tashqi mablag‘larni jalb qilishda moliya bozorining roli hamda ularda pandemiyasi sabab yuzaga kelishi mumkin bo‘lgan xatarlar haqida ham to‘xtalib o‘tilgan.

Tayanch so‘z va iboralar: moliya bozori, obligatsiyalar bozori, iqtisodiy noaniqlik, kredit bozori, foiz stavkalari

ВЛИЯНИЕ ПАНДЕМИИ COVID-2019 НА РЫНОК ОБЛИГАЦИЙ В УЗБЕКИСТАНЕ

В этой статье представлена информация о факторах, влияющих на рынок облигаций Узбекистана, вызванных пандемией коронавируса, которая распространяется по всему миру и вызывающей экономическую неопределенность, а также об их уровне, а также мерах по решению будущих проблем. В данной статье рассматриваются состояние и характеристики рынка облигаций в контексте экономической неопределенности, а также роль финансового рынка в привлечении иностранного капитала в нашу страну и риски, которые могут быть вызваны пандемией.

Ключевые слова: финансовый рынок, рынок облигаций, экономическая неопределенность, кредитный рынок, процентные ставки
Introduction

The bond market plays a key role for many financial institutions and corporates, as well as governments as a funding tool. A wide range of issuers and investors participate in the market with varied purposes, from gaining funds to keeping liquidity. The bond market is able to provide a good sense of where the economy is going as it is subject to immediate changes in behavior. During the period of economic turmoil, such as financial crises, people tend to avoid risky instruments so as to manage risk level and stock holders rush to sell their shares and replace them with safer financial instruments, government bonds and gold – the most preferred. These behavioral changes force governments and participants to change their policy or strategy to keep the balance in the market. If investors have doubt on economic stability, they apply to the fact that short-duration bonds may be better to hold in a recession since they mature more quickly irrespective of value. Longer-term bonds may be more sensitive to rate changes, potentially losing or gaining more value, depending on which way rates are moving. In this case, prices of short-term government bonds increase, meaning their yield decreases and oppositely non-governmental bonds’ interest rate rises.

Literature review

In the work of international and national scientists, the behavior of bond market in economic curtail, possible outcomes and solutions are examined. Oskar Kowalewski and Pawel Pisany gather data on outstanding market value and value of bonds issued by financial and non-financial companies and investigate the development of the corporate bond markets in ten Asian countries from 1995 to 2014. It is shown that a number of macroeconomic and institutional factors are significantly related to the depth of the corporate bond market, alongside positive effects of the development of the corporate bond markets on the outcome of the global financial crisis of 2008 in Asia[1]. In their work, Lanouar Charfeddine, Karim Ben Khediri, Goodness C. Aye, Rangan Gupta carried out thorough study of time-varying efficiency of developed and emerging bond markets. The results reveal that efficiency of these markets has been changing over time, depending on the prevailing economic, political and market conditions[2].

Furthermore, in an original contribution to the bond market literature, strong evidence was found by Emilios C.Galariotis, Styliani-IrisKrokida, Spyros I.Spyrou(2016) that during the EU crisis period, macroeconomic information announcements induced bond market investor herding[3]. Recently, Dayong Zhang, Min Hu, Qiang Ji has done research on the effects of COVID-19 on financial markets on the globe. They map the general patterns of country-specific risks and systemic risks in the global financial markets. It also analyses the potential consequence of policy interventions, such as the US’ decision to implement a zero-percent interest rate and unlimited quantitative easing (QE), and how these policies may introduce further uncertainties into global financial markets[4].
The results and analysis of the researches above are essential to learn and helpful to analyze the importance of bond market and predict the systematic risk caused by coronavirus pandemic in financial market in Uzbekistan.

**Analysis and results**

As the pandemic coronavirus kept spreading all over the world, this has triggered a global financial risk since countries have started to shut down their borders to isolate themselves. Today, after three months, recession is being experienced in the majority of the world countries. Financial markets in both developed and undeveloped economies are experiencing a tough time. They have seen dramatic movement on an unprecedented scale. The present results show that global financial market risks have increased substantially in response to the pandemic. Individual stock market reactions are clearly linked to the severity of the outbreak in each country. The great uncertainty of the pandemic and its associated economic losses has caused markets to become highly volatile and unpredictable. In order to stimulate the investment activity, most governments are decreasing their main interest rates. For example, the Federal Reserve System in the USA cut their interest rates to zero to prop up their economy, which was an unprecedented emergency cut.

As for the bond market in Uzbekistan, it is limited with a few issuers and not many investors as financial markets are their early development stage. That is why, business entities are heavily dependent on bank lending. However, from 2018 active support from government started to drive bond market in the country and enter international markets. The strategy of capital market has been developed and its foundations have been initiated. For the first time, government bonds were successfully placed in international market, which is paramount to create a channel for global funding resources by achieving international confidence. That corporations in our country have started to offer their corporate bonds internationally is a positive signal for the financial system.

The bond market in Uzbekistan can be divided into three main categories: • bonds issued by financial institutions; • bonds issued by corporates (non-financials); • long-dated government bonds directed to only jurisdictions. As the majority of the population are on a low budget, public has no access to state bond market yet. In this case, the government is able to exclusively rely on international debt and a decline in the expenditures of state budget recommended by IMF to cover the unexpected expenses and loss of budget profit. When it comes to corporate bond market, it is expected that no dramatic negative effects will be felt because business does prefer to address to bank loans while a lack of resources. Presently, in the bond market merely 6 active corporate bonds exist and the majority have no ability to compete with bank loans in terms of their profitability level. Another problem is limited variation in types of bonds. Expectations of investors, such as maturity time, risk level and yield are not met. Liquidity is so low as the secondary market is deadly passive. These factors can be ensured the below statistics related to the first quarter of 2020.
Table 1

Data on existing issuers and the amount of corporate bonds[5]
(on 01.04.2020)

<table>
<thead>
<tr>
<th>Emiteents</th>
<th>Amount(billion sum)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>433.1</td>
</tr>
<tr>
<td>O’zsanoatqurilishbank</td>
<td>183.06</td>
</tr>
<tr>
<td>Invest Finans Bank</td>
<td>100</td>
</tr>
<tr>
<td>Asia Alliance Bank</td>
<td>50</td>
</tr>
<tr>
<td>National Bank</td>
<td>100.04</td>
</tr>
<tr>
<td>Other issuers</td>
<td>75</td>
</tr>
<tr>
<td>O’zavtosanoat</td>
<td>50</td>
</tr>
<tr>
<td>Uzbek Leasing International</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>508.1</strong></td>
</tr>
</tbody>
</table>

It is clear that bonds are not a main funding tool in the country. However, a low number of joint-stock companies (around 600) must be considered as only they are entitled to issue bonds to gain debt capital. From these figures, it can be deducted that there will not be a considerable contraction in attracting capital in bond market and default risk of bonds also seems not to occur under the pressure of the pandemic. On the other hand, bank loans, the fundamental funding tool, are expected to decline because of the possible lack of resources.

Table 2

External capital gain by business entities in the first quarter of 2020[6]

<table>
<thead>
<tr>
<th>Sector</th>
<th>Amount(billion sum)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loan</td>
<td>173 657</td>
</tr>
<tr>
<td>Corporate stock</td>
<td>2 160 1.31</td>
</tr>
<tr>
<td>Corporate bond</td>
<td>20</td>
</tr>
</tbody>
</table>

If we analyze the importance of bank loan market, we can see data related to the first quarter of 2020 on the three sectors. The majority of business entities (around 90%) have used bank loans to get resources. The role of capital market is relatively low as there are still problems with law system to found joint-stock companies and real competition in market economy. To make the matters worse, banking system is not competitive since the share of the state is significantly high (nearly 90%) in this sector. Privatization of banks begun with high efforts last year, however, due to the sudden pandemic we can forecast that banks will be subject to the main sufferers as the government is predicted to support business and entrepreneurs at first.
Conclusions and proposals
Having gathered and analyzed enough information on the bond market in Uzbekistan and its probable impacts on financial markets, the followings can be summarized;

First, it is highly possible that the bond market will not undergo a tough period in our country because of Covid-19 as its segment as a financing tool is relatively small. There will not be an investor herding also when stock prices go down because government bonds are limited to purchase for individuals. It is proved that a number of macroeconomic and institutional factors are significantly related to the depth of the corporate bond markets. Furthermore, a strong positive association between creditor rights, level of domestic credit, and the outstanding and issue values of corporate bonds are determined in research. We can recommend that competition should be encouraged in the economy and varied bonds should be introduced.

Secondly, as the main funding organisations, banks are likely to face some challenges. The cash flow of many consumers and businesses will collapse as lack of demand flows through into lower business revenues and employee layoffs. These in turn will cause an increase in both commercial and retail non-performing loans, as borrowers struggle to make scheduled interest and principal payments. There are, however, steps banks can take to mitigate this, to help their customers survive, and potentially to emerge with stronger customer relationships. To achieve this, they can extend credit, support government actions or digitizing their operations to create demand for loans.

Thirdly, Covid-19 pandemic can provide emerging financial markets with a chance to overcome some problems by accelerating the process of digitalization. In the time of isolation, the processes of financial markets can be improved with online programs.

Fourthly, under the uncertainty in the economy, temporary disruptions of inputs or production might stress some firms, particularly those with inadequate liquidity. Traders in financial markets may or may not correctly anticipate or understand which firms might be vulnerable. The resulting rise in risk might reveal that one or more key financial market players have taken investment positions that are unprofitable under current conditions, further weakening trust in financial instruments and markets. A possible (likely low-probability) event would be a significant financial market disruption as participants become concerned about counterparty risk. This probability seems far to happen in our country as financial markets are passive.

References
2. Lanouar Charfeddine, Karim Ben Khediri, Goodness C. Aye, Rangan Gupta (2018). Time-varying efficiency of developed and emerging bond markets:


5. www.deponet.uz, from which the data are used

6. www.cbu.uz and www.deponet.uz, from which the data are used