



Formation of repo (repurchase) agreements in Uzbekistan and its significance in development of market economy

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Abstract : In this article, significance of repo (repurchase) agreement and its development in Uzbekistan are analyzed. In these days, stipulation of successful existence of security market is considered as one of the most important missions in developing the economy of Uzbekistan. Hence, in independence period great attention is paid to forming legal platforms of modern security market and developing its agreement terms and conditions in Uzbekistan.

Key words: repo (repurchase) agreement, stock market, securities (paper), security market.

Analysis

In integration processes of the economy of Uzbekistan into the financial and economic systems of the world, significance of stock markets and usage of securities (paper) accordingly increase in those markets. Mechanism of attracting investments by securities which are considered as one of the most essential constituents in providing practice of stock markets is fully proved its worth in experience of developed countries. For that reason, enhancing integration into stock markets and constructing their legal platforms by supporting marketability are the main priorities ahead of the Republic of Uzbekistan.

In these days, stipulation of successful existence of security market is considered as one of the most important missions in developing the economy of Uzbekistan. Hence, in independence period great attention is paid to forming legal platforms of modern security market and developing its agreement terms and conditions in Uzbekistan.

If we study the experience of developed countries, security markets were formed spontaneously during long times. As a result, rules and regulations in regard of them have been established. In Uzbekistan national stock market and legal norms and regulations concerning its activity have been developed simultaneously.

On 2nd September in 1993 Law of the Republic of Uzbekistan "On security market and stock exchange" was enacted. In that law, the following types of activities and issues were specified: securities – shares, obligations, duties of treasury, certificates of deposit, outstanding securities and bills of exchange, forming other participants of the security market and their activities, legal platforms of regulating by the government and so on.

On 25th April in 1996 Law of the Republic of Uzbekistan "On activity mechanism of security market" was enacted. In that law, participants of the security market, features of investing institutions and punishments against breaking the rules



of this sphere by the participants of the security market are specified and classified.

On 26th April in 1996 Law of the Republic of Uzbekistan "On joint-stock companies and protecting rights of stockholders" was enacted. This law has regulated procedures as forming joint-stock companies, their activity and closing down practices, relations concerning protection of shareholders rights and so on.

On 29th of August in 1998 Law of the Republic of Uzbekistan "On activity of depositaries in security market" was enacted. According to that Law, two-stepped system of the national depository in Uzbekistan was formed and launched. It includes Central State Depository of Securities of the Republic of Uzbekistan (first step) and Depositaries based on different property types (second step). On 30th August in 2001 Law of the Republic of Uzbekistan "On protecting rights of investors in security market" was enacted.

Development of security markets in Uzbekistan is bringing about improving current institutions which provide implementation of the activities of entrepreneurship and forming totally new institutions in this field. The world crisis which began in 2008, made it exceptionally important to enhance financial management systems in world countries and modify diverse economic and legal instruments, as well as improve their legal platforms. Scope of financial and economic crisis in any country depends on the strength of their financial systems, capitalization and liquidity degree of national credit institutions.

Finally, in 2008 the following Law of the Republic of Uzbekistan "On Security market" was enacted. This Law was developed as a result of all four important

Laws which were enacted during 1993-2001 – "On security market and stock exchange", "On activity mechanism of security market", "On activity of depositaries in security market", "On protecting rights of investors in security market". In this process, with the help of gained practices all previous national and international experiences were studied and analyzed deeply, all existing inaccuracies were corrected and above-mentioned Laws were enhanced, new additions made and amended. And later in 2015 this Law was approved in a new edited version.

Several factors as efforts to decrease risk and increase profit indications by the participants of market relations, and most of the objective factors of market economy were the reasons to form new instruments as repo (repurchase) agreements¹. Repo (repurchase) agreements were formed as a result of objective development and have been built up according to relevant rules in stock exchanges. It is important to state that in all countries whose economy is based on market economy, security markets are characterized as exchanges. One of the main reasons for creating repurchase agreements is the demand for alternative form of credit financing and the need for managing liquidity degree of assets by the entrepreneurs. Later this kind of agreement widespread and became common directly between entrepreneurs, especially between

¹ "Repo" as a term is taken from "repurchase agreement" in English, and it means "an agreement reached on repurchasing". In some sources it is stated that the term "repo" originated from the phrase "sale and repurchase agreement". On the other hand, some authors argue that it is taken from the word "repossession".



commercial banks, and their sphere of application widened. In the process of its development repurchase agreement was used as a tool of distributing capital in private sector and implementing government's monetary management and policy. Repurchase agreement is seen as one of the most inseparable components of the financial markets for private financial institutions which intend to implement their investment projects in user countries' central banks and all spheres of financial market, as well as it is used as an inseparable part of the monetary policy around the world. At this point the repo's basic function is managing liquidity of bank systems for central banks, and managing liquidity degree of assets for financial institutions. In its turn, it is important to state that the most essential functions of commercial banks are doing relevant calculations and completing payments, therefore keeping the liquidity degree in stability is exceptionally important for them. Repo agreement can be helpful to some extent in solving this problem (because it is possible to manage the liquidity by other instruments).

Nowadays, there are traditional methods of credit financing and investing, however repo agreement is developing persistently in international markets and it is serving for the formation of united financial area (neighborhood). According to a number of researchers, "...securities (paper) are seen as approval documents of investing"². As a consequence of that, with the help of repo agreement and existing securities it is possible to implement secondary investing or credit financing.

² Рахманкулов Х., Гулямов С.С. Корпоративное право. –Тошкент: ТГЮИ, 2004. – С.191.

As stated by the experts of security market "repo market is the key for implementing the strategy of creating trade and market"³, as well as "agreement plays the decisive role in productive distribution of capital in financial markets"⁴. In its time Russian scholar G.F. Shershenevich identified repo agreement as "the key for stock exchange operations"⁵.

Repo agreement is considerably complicated in juridical terms. There are some priorities in using them; particularly this financial and legal instrument can provide distributing capital productively, preventing credit financing risks, free access to the world stock markets, attracting investments by the means of securities and other essential points. Especially, it is very practical to use them in developing emergent joint-stock companies while privatizing numbers of governmental joint-stock companies. Another noteworthy point of this agreement is being the pushing force in developing entrepreneurship by regulating credit financing relations.

At present, in majority of developed countries' (including Uzbekistan) stock exchanges special areas (sections) have

³ Stefano Bellani, Primary dealership and the repo market in Europe: a market maker point of view, OECD global forum on Government Securities Markets and Public Debt Management Rome, 27th November 2003 - P.1 <http://www.oecd.org>.

⁴ Michael J. Fleming and Kenneth D. Garbade The Repurchase Agreement Refined: GCF Repo, Current Issues Volume 9, Number 6 June 2003 Federal Reserve Bank of New York - P. 1 <http://app.ny.frb.org>

⁵ Шершеневич Г.Ф. Курс торгового права. Т. II: Товар. Торговые сделки (по изд. 1908 г.). – М.: «Статут», 2003. - С. 490



been created for drawing repo agreements.

On 22nd August in 1998 transitory Charter "On implementation rules for short term state obligations and repo agreements by the Central Bank of the Republic of Uzbekistan" was approved by the Central Bank Administration of the Republic of Uzbekistan. It created a legal platform for fulfilling operations in open market and repo market as a new inner market mechanism in refinancing commercial banks.

Beginning from January 1998 the Central Bank of the Republic of Uzbekistan started on purchasing (buying) and selling operations of short term state obligations in secondary market. The main point on that kind of operations is to provide stability and liquidity of the market, as well as regulating current rates of interest in the market.

According to the above-mentioned Charter the following are established:

In terms of repurchase agreement, a trade (buy and sell) agreement drawn by conditions of purchasing obligations again is comprehended and it includes the following:

- an agreement drawn on selling the obligations to the Central Bank in specified term and price according to the contract by the bank (first part of the agreement);
- an agreement on repurchasing the same amount of the obligations (which are relevant to the same release) from the Central Bank by the bank whose terms and prices are specified in the contract (second part of the agreement).

In our country there are a number of resolutions and decrees of the President of the Republic of Uzbekistan, as well as government resolutions on developing

security market, especially repo agreement market.

On 22nd August 2001 No. 349-Resolution of the Government of the Republic of Uzbekistan "On efforts to develop credit financing mechanism of the economy" was released. In that resolution, managing money stock by purchasing and selling through resource credit financing auctions according to the market principles, as well as improving credit financing mechanism by purchasing high liquidity securities (repo operations) were identified as the main missions.

Furthermore, on 15th December in 2003 No. 547-Resolution of the Government of the Republic of Uzbekistan "On efforts to enhance the control over essential parameters of macroeconomic indicators in 2004 and their fulfillment" was released. In that resolution, using repo operations on purpose of normalizing demand changes for money stock based on applying market instruments of monetary policy was categorized as the main task.

Accordingly, on 7th November in 2007 No. 726-Decree (ПҚ-726) of the President of the Republic of Uzbekistan "On efforts to develop bank system and attracting free money resources to the banking" was released. In that decree, supporting liquidity of banks by extending repo operations was determined as the main undertaking.

Above-mentioned legal norms and documents classify repo agreement as an instrument of credit financing, managing money stock, and managing liquidity of banks.

On purpose of realizing efforts identified in these decrees and resolutions, a number of subordinate legal documents on direct regulating repo relations were processed and implemented into practice.



For instance, in 2004 the Charter "On implementing repo conjunctions with securities" was enacted. As a result of this Charter sphere of securities as objects of repo agreement extended. Drawing an agreement became possible by means of securities released by economic parties. Prior to that Charter, repo agreements were drawn by only governmental securities. Enactment of that Charter formed a legal platform for spreading repo agreements between legal and individual entities.

In Uzbekistan dynamics of corporate securities and repo operations have an increasing tendency.

It is essential to assort the following points of repo agreement that can impact on the current increasing tendency:

- Mobilizes free financial supplies;
- Provides transition of capital from unproductive networks into productive ones;
- Attracts money supplies to close budgetary deficit;
- Impacts on inflation of national currency;
- Completely different from traditional credit financing methods by its simplicity;
- Differs from credit financing by its low interest rates;
- There is a simple system to prepare documents, agreement can be drawn and implemented through e-commerce systems;
- Credit financing history of the participant, especially seller of securities is not important;
- Proprietary right totally passes to the purchaser;
- Gives an opportunity to the purchaser of securities to sell or use the purchased securities on other methods during the agreement period;

In its turn, let's pay an attention to

sphere of the participating parties in drawing repo agreements. In 2011 initiators of repo agreements were mainly small business entities and private enterprises, i.e. their share in first step agreements was 99.4%. Additionally, it is observed that private enterprises and individual persons are also interested in drawing repo agreements.

In 2015 shares of participants were as following: banks – 69.8%, small business entities and private enterprises – 27.0% and other legal entities – 3.2% accordingly as a repo acceptor in implemented agreements.⁶

In development of market economy, civil and legal relations have become the most significant priorities. Repo agreements as one of the most crucial instruments in identifying civil and legal relations are considered one of the newest and rapidly developing agreement types in Uzbekistan.

In conclusion, it is important to state that creation and development of this agreement in Uzbekistan is related to the objective demand of the market economy. We can see that significance of this agreement is increasing year by year and it can be observed in the totals of agreements drawn in stock exchanges and the active indexes of repurchase agreements in comparison to general exchange agreements. Relevant legal platforms are created to regulate those agreements.

⁶ www.uzse.uz