

**ЎЗБЕКИСТОН РЕСПУБЛИКАСИ ОЛИЙ ВА ЎРТА МАХСУС
ТАЪЛИМ ВАЗИРЛИГИ**

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АЛИМОВ ОЛИМ

**MODERN TRENDS IN THE INTERNATIONAL STOCK
MARKET**

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Магистр академик даражасини олиш учун ёзилган

ДИССЕРТАЦИЯ

Илмий раҳбар: доц. Шарифходжаева К

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Modern trends of the International Stock Market

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Introduction

The economy of any country since the modifying to the market system requires constant investment to finance all its branches. One of the main sources of funding is the direct investments of the country's population, which then brings the income. The consequence of mentioned above is the appearance of the mechanism of redistribution of funds between financial market participants.

Financial market, as a center of free mobilization of financial resources, regulates the distribution to the most effective areas of the economy, thereby developing more vital sectors.

One of the key segments of the financial market in which becomes the reproduction of capital is the stock market. A distinctive feature of the stock market is its free flow of funds that makes it easy to invest money in securities of a particular company.

Thus, it should be noted that a significant part of the financial market is the stock market, which accumulates savings and converts them into financial assets for future investment in the economy, in order to improve its production capacity.

As noted by the President of the Republic of Uzbekistan I.Karimov, in one of his reports: "...only then can we say that privatization process is gaining the real features, when securities' secondary market will start working, when share quotation will be published in a regular basis, when population will start having taste and desire to become holders of these shares and the shares themselves are not simply featureless papers, but will indeed become valuable and will be valued by their holders as the one of their most important sources of income".

The above statement is supported by the relevance of the theme of modern trends of the International stock market.

The purpose of the graduation qualification work is to investigate and analyze the trends of the International stock market and its impact on the world economy.

To achieve the designated goals were set and solved the following problems:

- to investigate the role of the International stock market and its impact on the global economy;

- to consider aspects of the impact of globalization to the trends of International stock market;

- to analyze the major trends of the world stock exchanges;

- to analyze the impact of the global financial crisis on the International stock market;

- to determine the prospects of the Republic of Uzbekistan in the context of learning world experience;

Objectives of the study of graduation qualification work – the impact of globalization and global financial crisis on modern trends of the International stock market.

The object of study is modern trends of International stock market, and development prospects the Republic of Uzbekistan in the context of learning world experience.

The trends of the International stock market and its post-crisis period are the focus of research scientists, economists in the countries near and far abroad. Aspects of modern trends are investigated in scientific studies of such academic economists as Warren Buffet, F.S. Mishkin, Paul Krugman, S.Guriev.

The information base study were database around the world, books as the World Economic Forum «The financial development report 2012», «The Global Economic Outlook», Reports of the World Federation of Exchanges, as well as

presidential decrees, laws, regulations. Textbooks and teaching aids, materials science and applied research, scientific articles and publications, both domestic and foreign scholars and specialists.

Work consists of three chapters, conclusions and recommendations, and bibliography.

In the first chapter of the final qualifying work is considered the main theoretical approaches of the International stock market.

In the second chapter of "Analysis of indicators of the International Stock market" examined the impact of the global financial crisis on the International stock market and major trends of the world stock exchanges.

In the third chapter of "Development prospects of the International stock market" has been studied prediction and forecasting of the International stock market for the nearest future and development strategy of the Republic stock exchange "Toshkent" by learning foreign experience.

In the final part are the summarized studies that provide general recommendations of scientific and practical nature.

Chapter 1. The main theoretical approaches of the International Stock Market.

1.1. The role of the stock market in the world economy.

In a world that is becoming increasingly interlinked, the importance of international financial markets cannot be overstated. Millions of dollars trade hands each day across oceans and continents. The benefits of free trade are well-known. International financial markets use the basic economic principle of efficiency to bring higher returns to investors around the world.¹

The primary link between the stock market and the economy — in the aggregate — is that an increase in money and credit pushes up both GDP and the stock market simultaneously.

A progressing economy is one in which more goods are being produced over time. It is real "stuff", not money per se, which represents real wealth. The more cars, refrigerators, food, clothes, medicines, and hammocks we have, the better off our lives. We saw above that, if goods are produced at a faster rate than money, prices will fall. With a constant supply of money, wages would remain the same while prices fell, because the supply of goods would increase while the supply of workers would not. But even when prices rise due to money being created faster than goods, prices still fall in real terms, because wages rise faster than prices. In either scenario, if productivity and output are increasing, goods get cheaper in real terms.

Obviously, then, a growing economy consists of prices falling, not rising. No matter how many goods are produced, if the quantity of money remains constant, the only money that can be spent in an economy is the particular amount of money existing in it (and velocity, or the number of times each dollar is spent, could not change very much if the money supply remained unchanged).

¹ Rachel Levy Sarfin, Role and Functions of the International Stock Market (2012)

This alone reveals that GDP does not necessarily tell us much about the number of actual goods and services being produced; it only tells us that if (even real) GDP is rising, the money supply must be increasing, since a rise in GDP is mathematically possible only if the money price of individual goods produced is increasing to some degree.² Otherwise, with a constant supply of money and spending, the total amount of money companies earn — the total selling prices of all goods produced — and thus GDP itself would all necessarily remain constant year after year.

The same concept would apply to the stock market: if there were a constant amount of money in the economy, the sum total of all shares of all stocks taken together (or a stock index) could not increase. Plus, if company profits, in the aggregate, were not increasing, there would be no aggregate increase in earnings per share to be imputed into stock prices.

In an economy where the quantity of money was static, the levels of stock indexes, year by year, would stay approximately even, or drift slightly lower³ — depending on the rate of increase in the number of new shares issued. And, overall, businesses (in the aggregate) would be selling a greater volume of goods at lower prices, and total revenues would remain the same. In the same way, businesses, overall, would purchase more goods at lower prices each year, keeping the spread between costs and revenues about the same, which would keep aggregate profits about the same.

Under these circumstances, capital gains (the profiting from the buying low and selling high of assets) could be made only by stock picking — by investing in companies that are expanding market share, bringing to market new

² Price increases are supposedly adjusted for, but "deflators" don't fully deflate. Proof of this is the very fact that even though rising prices have allegedly been accounted for by a price deflator, prices still rise (*real* GDP still increases). Without an increase in the quantity of money, such a rise would be mathematically impossible.

³ To gain an understanding of earning interest (dividends in this case) while prices fall, see Thorsten Polleit's, "Free Money Against 'Inflation Bias'."

products, etc., thus truly gaining proportionately more revenues and profits at the expense of those companies that are less innovative and efficient.

The stock prices of the gaining companies would rise while others fell. Since the average stock would not actually increase in value, most of the gains made by investors from stocks would be in the form of dividend payments. By contrast, in our world today, most stocks — good and bad ones — rise during inflationary bull markets and decline during bear markets. The good companies simply rise faster than the bad.

Similarly, housing prices under static money would actually fall slowly — unless their value was significantly increased by renovations and remodeling. Older houses would sell for much less than newer houses. To put this in perspective, consider that if our rate of inflation were high enough, used cars would rise in price just like new cars, only at a slower rate — but just about everything would increase in price, as it does in countries with hyperinflation. The amount by which a home "increases in value" over 30 years really just represents the amount of purchasing power that the dollars we hold have lost: while the dollars lost purchasing power, the house — and other assets more limited in supply growth — kept its purchasing power.

Since we have seen that neither the stock market nor GDP can rise on a sustained basis without more money pushing them higher, we can now clearly understand that an improving economy neither consists of an increasing GDP nor does it cause the overall stock market to rise.

This is not to say that a link does not exist between the money that companies earn and their value on the stock exchange in our inflationary world today, but that the parameters of that link — valuation relationships such as earnings ratios and stock-market capitalization as a percent of GDP — are rather flexible, and as we will see below, change over time. Money sometimes flows more into stocks and at other times more into the underlying companies, changing the balance of the valuation relationships.

As we have seen, the whole concept of rising asset prices and stock investments constantly increasing in value is an economic illusion. What we are really seeing is our currency being devalued by the addition of new currency issued by the central bank. The prices of stocks, houses, gold, etc., do not really rise; they merely do better at keeping their value than do paper bills and digital checking accounts, since their supply is not increasing as fast as are paper bills and digital checking accounts.

The fact that we have to save for the future is, in fact, an outrage. Were no money printed by the government and the banks, things would get cheaper through time, and we would not need much money for retirement, because it would cost much less to live each day than it does now. But we are forced to invest in today's government-manipulated inflation-creation world in order to try to keep our purchasing power constant.

To the extent that some of us even come close to succeeding, we are still pushed further behind by having our "gains" taxed. The whole system of inflation is solely for the purpose of theft and wealth redistribution. In a world absent of government printing presses and wealth taxes, the armies of investment advisors, pension-fund administrators, estate planners, lawyers, and accountants associated with helping us plan for the future would mostly not exist. These people would instead be employed in other industries producing goods and services that would truly increase our standards of living.

And finally, we can conclude that the most important economic and financial indicator in today's inflationary world is money supply. Trying to anticipate stock-market and GDP movements by analyzing traditional economic and financial indicators can lead to incorrect forecasts. To rely on these "fundamentals" is to largely ignore the specific economic forces that most significantly affect those same fundamentals — most notably the changes in the

money supply. Therefore, following monetary indicators would be the best insight into future stock prices and GDP growth.⁴

1.2. The concept and structure of the stock market: the main participants, objectives and principles of their interaction.

Stock market is an economic institute within which take place sale and purchase transactions of securities between subjects of economy on the base of demand and supply. We can say that stock market is a system of interconnection between all participants (professional and non-professional) that provides effective conditions to buy and sell securities, and also:

- to attract new capital by means of issuance new security;
- to transfer real asset into financial asset;
- to invest money for short or long term periods with the aim of deriving profit
- commercial function (to derive profit from operation on this market);
- price determination (demand and supply balancing, the continuous process of prices movements guarantees to state correct price for each security so the market corrects mispriced securities);
- informative function (market provides all participants with market information about participants and traded instruments);
- regulation function (securities market creates the rules of trade, contention regulation, priorities determination).

Specific functions of the stock market:

- Transfer of ownership (securities markets transfer existing stocks and bonds from owners who no longer desire to maintain their investments to buyers who wish to increase those specific investments);

⁴ Kel Kelly, How the Stock Market and Economy Really Work (2010)

- Insurance (hedging) of operations through securities market (options, futures, etc.)

Levels of stock market

The primary market is that part of the capital markets that deals with the issue of new securities. Companies, governments or public sector institutions can obtain funding through the sale of a new stock or bond issue. This is typically done through a syndicate of securities dealers. The process of selling new issues to investors is called underwriting. In the case of a new stock issue, this sale is a initial public offering. Dealers earn a commission that is built into the price of the security offering, though it can be found in the prospectus. Primary markets create long term instruments through which corporate entities borrow from capital market.

Features of primary markets are:

- This is the market for new long term equity capital. The primary market is the market where the securities are sold for the first time. Therefore it is also called the new issue market (NIM);
- In a primary issue, the securities are issued by the company directly to investors;
- The company receives the money and issues new security certificates to the investors;
- Primary issues are used by companies for the purpose of setting up new business or for expanding or modernizing the existing business;
- The primary market performs the crucial function of facilitating capital formation in the economy;
- The new issue market does not include certain other sources of new long term external finance, such as loans from financial institutions. Borrowers in the new issue market may be raising capital for converting private capital into public capital;

The secondary market, also known as the aftermarket, is the financial market where previously issued securities and financial instruments such as stock, bonds, options, and futures are bought and sold.

With primary issuances of securities or financial instruments, or the primary market, investors purchase these securities directly from issuers such as corporations issuing shares in an IPO or private placement, or directly from the federal government in the case of treasuries. After the initial issuance, investors can purchase from other investors in the secondary market.

The secondary market for a variety of assets can vary from loans to stocks, from fragmented to centralized, and from illiquid to very liquid. The major stock exchanges are the most visible example of liquid secondary markets – in this case, for stocks of publicly traded companies. Exchanges such as the New York Stock Exchange, NASDAQ and the American Stock Exchange provide a centralized, liquid secondary market for the investors who own stocks that trade on those exchanges. Most bonds and structured products trade “over the counter,” or by phoning the bond desk of one’s broker-dealer. Loans sometimes trade online using a Loan Exchange.

Over-the-counter (OTC) or off-exchange trading is to trade financial instruments such as stocks, bonds, commodities or derivatives directly between two parties. It is contrasted with exchange trading, which occurs via facilities constructed for the purpose of trading (i.e., exchanges), such as futures exchanges or stock exchanges. In the U.S., over-the-counter trading in stock is carried out by market makers that make markets in OTCBB and Pink Sheets securities using inter-dealer quotation services such as Pink Quote (operated by Pink OTC Markets) and the OTC Bulletin Board (OTCBB). OTC stocks are not usually listed nor traded on any stock exchanges, though exchange listed stocks can be traded OTC on the third market. Although stocks quoted on the OTCBB must comply with United States Securities and Exchange Commission (SEC) reporting requirements, other OTC stocks, such as those stocks categorized as

Pink Sheets securities, have no reporting requirements, while those stocks categorized as OTCQX have met alternative disclosure guidelines through Pink OTC Markets. An over-the-counter contract is a bilateral contract in which two parties agree on how a particular trade or agreement is to be settled in the future. It is usually from an investment bank to its clients directly. Forwards and swaps are prime examples of such contracts. It is mostly done via the computer or the telephone. For derivatives, these agreements are usually governed by an International Swaps and Derivatives Association agreement.

Main financial instruments

Promissory note, referred to as a note payable in accounting, or commonly as just a "note", is a contract where one party (the maker or issuer) makes an unconditional promise in writing to pay a sum of money to the other (the payee), either at a fixed or determinable future time or on demand of the payee, under specific terms. They differ from IOUs in that they contain a specific promise to pay, rather than simply acknowledging that a debt exists.

A certificate of deposit or CD is a time deposit, a financial product commonly offered to consumers by banks, thrift institutions, and credit unions. CDs are similar to savings accounts in that they are insured and thus virtually risk-free; they are "money in the bank" (CDs are insured by the FDIC for banks or by the NCUA for credit unions). They are different from savings accounts in that the CD has a specific, fixed term (often three months, six months, or one to five years), and, usually, a fixed interest rate. It is intended that the CD be held until maturity, at which time the money may be withdrawn together with the accrued interest.

Bond – an issued security establishing its holder's right to receive from the issuer of the bond, within the time period specified therein,

- its nominal value;

- and the interest fixed therein on this value or other property equivalent.

The bond may provide for other property rights of its holder, where this is not contrary to legislation.

Stocks (shares)

Common shares represent ownership in a company and a claim (dividends) on a portion of profits. Investors get one vote per share to elect the board members, who oversee the major decisions made by management. Over the long term, common stock, by means of capital growth, yields higher returns than almost every other investment. This higher return comes at a cost since common stocks entail the most risk. If a company goes bankrupt and liquidates, the common shareholders will not receive money until the creditors, bondholders, and preferred shareholders are paid.

Preferred stock represents some degree of ownership in a company but usually doesn't come with the same voting rights. (This may vary depending on the company.) With preferred shares investors are usually guaranteed a fixed dividend forever. This is different than common stock, which has variable dividends that are never guaranteed. Another advantage is that in the event of liquidation preferred shareholders are paid off before the common shareholder (but still after debt holders). Preferred stock may also be callable, meaning that the company has the option to purchase the shares from shareholders at anytime for any reason (usually for a premium). Some people consider preferred stock to be more like debt than equity.

Professional participants in the stock market - legal persons, including credit organizations, and also citizens registered as business persons who conduct the following types of activity:

- **Brokerage** shall be deemed performance of civil-law transactions with securities as agent or commission agent acting under a contract of agency or

commission, and also under a power (letter) of attorney for the performance of such transactions in the absence of indication of the powers of agent or commission agent in the contract;

- **Dealer** activity shall be deemed performance of transactions in the purchase and sale of securities in one's own name and for one's own account through the public announcement of the prices of purchase and/or sale of certain securities, with an obligation of the purchase and/or sale of these securities at the prices announced by the person pursuing such activity;
- **Activity in the management of securities** shall be deemed performance by a legal person or individual business person, in his own name, for a remuneration, during a stated period, of trust management of the following conveyed into his possession and belonging to another person, in the interests of this person or of third parties designated by this person:
 - 1) securities;
 - 2) money intended for investment in securities;
 - 3) money and securities received in the process of securities management.
- **Clearing** activity shall be deemed activity in determining mutual obligations (collection, collation and correction of information on security deals and preparation of bookkeeping documents thereon) and in offsetting these obligations in deliveries of securities;
- **Depository** activity shall be deemed the rendering of services in the safekeeping of certificates of securities and/or recording and transfer of rights to securities;
- **Activity in the keeping of a register of owners of securities** shall be deemed collection, fixing, processing, storage and provision of data constituting a system of keeping the register of security owners;

- Provision of services directly promoting conclusion of civil-law transactions with securities between participants in the securities market shall be deemed activity in the **arrangement of trading on the securities market**.⁵

1.3. Impact of globalization to the trends of the world stock markets.

The globalization of the world stock markets is the most significant development that has occurred during the last decade. Various factors contributed to this including: the advancement of technology and remote access which have been utilized in security trading, the emergence of new international financial institutions offering financial services regardless of geographical and jurisdictions, trends of liberalization and the removal of restrictions used to be imposed on foreign ownership, and the movement towards regional integration of that stock exchanges, clearing and settlements organizations, and other financial institutions.⁶

The globalization phenomenon may be blessing, since many experts believe that globalization may improve market efficiency, lower its risk due to the possibility of diversification, and use arbitrage in a relevant way. On the other hand, may increase pricing volatility and trading instability, due to the high correlation between leading - major- stock markets on other markets as well as to the fact that the irrational trading in one market may move to other markets as witnessed in the last two decades.⁷

⁵ Elena B. Starodubtseva, Securities market (2005)

⁶ Sabri, Nidal Rashid (2004) Stock Volatility and Market Crisis in Emerging Economies Review of Accounting and Finance, 3, No. 3; 59-83.

⁷ Sabri, Nidal Rashid (2002a) "Increasing linkages between global stock markets and price volatility Research in International Business & Finance; 16, 349-373.

Major aspects of stock market globalization:

From an analysis of the present practices and the expected trends, it appears that the world's stock markets are heading rapidly toward globalization through two major changes; these are the liberalization of international stock trading rules, and the internationalizing of stock trading practices.⁸

Liberalization of stock trading: The majority of the world stock exchanges have adopted regulatory changes in the last decade, most of which favor the liberalization of stock markets trading and the regulation of financial institutions. The liberalization of stock markets may take various forms, including: removing restrictions imposed on foreign ownership, attracting foreign investors to invest in the national stock exchanges and increasing the share of foreign trading in the stock markets to permit direct investments by foreign investors. However, this liberalization of world stock markets has materialized mostly through the following ways:

The number of countries that introduced changes in their investment laws and to encourage foreign investments including direct foreign investments has increased significantly; about 70 countries issued about 1641 regulatory changes favorable to foreign investments from 1991 to 2002. In addition, of the fifty-two emerging stock markets, thirty-five have removed the ceiling of ownership for listed stocks up to 100% of the total equities by the end of 1998. The other seventeen states have allowing non-residents to own in local stock markets partially, such as Brazil: 49%, Trinidad and Tobago: 30%, India 24%, Korea: 39%, Philippines: 40%, Taiwan: 30%, Thailand: 49%, Russia: 9%- 25%, Ghana: 74, Jordan: 50%, Saudi Arabia 25%, Tunisia: 49.9%, and Zimbabwe: 40%.⁹ Indeed, most European countries have no foreign ownership restrictions, such as Austria, Denmark, Belgium, Luxemburg, Greece, Germany, Ireland, UK,

⁸ Sabri, Nidal Rashid (2002b) "Roots of stock market volatility and crises: a synthesis and suggested remedies" *International Review of Comparative Public Policy* 13; 1-53.

⁹ IFC, (1999) *Emerging Stock Markets Factbook 1999* (International Finance Corporation, Washington D. C.).

Sweden, Netherlands, and Italy. In addition, the majority of the world's emerging and developed countries witnessed growth in bilateral, multilateral, and international investment agreements to encourage foreign investments and cross borders cash flows.¹⁰

Another new practice that has emerged over the last decade involves the legal status of stock exchanges. The legal entity of the stock exchange in the majority of the world stock markets has been changed in recent years. Most changes were introduced in the last ten years including their economic status, the profit target, owners, legal entity, work conditions, sources of revenues, place of trading, and other. Many of the world's stock exchanges went through a process of demutualization and privatization. The privatization of the world's stock exchanges started in Europe and is extending now to some Asian stock exchanges and other emerging markets. For example, the Stockholm Stock Exchange was the first to become demutualized in 1993, followed by the majority of European stock exchanges, and exchanges in Hong Kong, Singapore, and Toronto. In addition, the majority of these stock exchanges are now public companies and their shares are listed on their own stock exchanges; such as Australian (1998), Hong Kong (2000), Helsinki (2000), Singapore (2000), Deutsche (2001), Oslo (2002), Euronext (2002), and London (2001).¹¹

Finally, changes of the legal entity of stock exchanges are extending to the rest of the world. The annual report of the World Federation of Exchanges (WFE, 2001), indicated that there was a significant changes in the legal status of the world's stock exchanges; about 46% of the exchanges were profit making firms or non- profit organizations with insider ownership, while 37% were profit making - organizations with outsider ownership, and 17% were public firms. Accordingly, it can be concluded that the trend in legal entity of stock exchanges

¹⁰ UNCTAD (2003) World Investments Report 2003; FDI Policies for development: National and international Perspectives (United Nations, New York and Geneva).

¹¹ Aggrawal, Reena (2002) "Demutualization and corporate governance of stock exchanges Journal of Applied Corporate Finance 15; 105-113.

is shifting from public and non-profit-making organization, to private firms with insider owners, and from private companies with insider owners, to public companies. Eventually, the majority of the world stock exchanges will be public corporations owned by both insiders and outsiders if this trend continues.

Trends in the use of dual class shares have also increased throughout the world's stock markets. Recently some countries that used to prevent foreigners from buying their national corporate shares are issuing a special class of shares that is designated for foreigners such as in China. This instrument liberates access to the stock markets from one side while keeps control by national stockholders continues on the other hand. The dual class of shares gives the world's stock markets the flexibility of opening up investments to international trading but with strict levels of control such as using limited voting rights.¹² Various stock commissions use dual class shares for voting purposes, residents-non residents, and bearer to register shares. The shareholders of dual stock assigned to less normal voting rights and bearer shares as well as non-promoters holders and foreigners' holders are considered as inferior holders; thus, their fast reactions of selling securities may impair the efficiency of stock markets and have an adverse effect on stock markets during unstable periods of trading. It is expected that the holders of inferior shares will be first to sell their equities as long as the other purposes of holding shares are not considered such as the management control of the firm. In addition, the gap between the prices of the different classes of a security will increase significantly, which may increase the price volatility for that security. There is also, a new trend of permitting the issuance of no-par value shares as a substitute for the par value shares. Various countries have accepted the concept of issuing no-par value shares in the last decade. The par value share was the only possibility for the majority of the world's corporate jurisdictions for a long time. Examples of such jurisdictions

¹² Sabri, Nidal Rashid (2005). Legal Features of Traded shares and stock price volatility" *Advances in Financial Economics*, 11; 237-249.

that had introduced the no-par value concept alongside the par value shares in the last decade are; France, Germany, Guernsey, Sate of Jersey. Other countries considering these issues such as Hong Kong and Taiwan, while Australia selected the no- par value share as sole alternative for new issues as found by this study. The issue of no- par value received a lot of attention in the last decade due to the process of converting the capital amounts of the European companies stated by the European national currencies into the Euro currency, which created various accounting problems during the redenomination process. In addition, using the no- par value concept may create various technical and legal problems, thus; prices are more volatile during instable trading periods.

Internationalization of stock markets: various new trading practices have been adapted by the world's stock markets in the last decade including the following:

Use of internet services is increasing; billions of dollars as expressed in traded value are channeled directly or indirectly through internet stock trading. In addition, the internet is gradually changing the direction and the mechanism of trading decisions of the world's stock markets. The trading decisions are now spreading all over the world, rather than being concentrated in and around the stock exchange. In the last five years, the number of investors including sellers and buyers using internet services has been increasing rapidly. For example, a NASDAQ report (2001) found that there were over 28 million on line brokerage accounts in 2001. In addition, a survey conducted in 2002 indicated that 31% of the European online consumers own shares, while one third of them researched online; that represents 10% of the European shareholders.¹³ The effect of internet trading on stock market stability is not yet clear. Online stock trading is considered as more active, more speculative, and less profitable as reported by

¹³ IOSCO (2003 a) Report on Securities activity on the internet III (the International Organization of Securities Commissions, October).

Barber and Odean (2002).¹⁴ The reaction of internet advisors, specialists and investors may be unpredictable during periods of stock market instability.

In addition to that, there is an increase in the share of foreign trading in the world's stock markets. The share of foreign trading in the world's stock trading used to be limited and immaterial. For example, Cooper and Kaplanis (1994) found that in 1987, 100% of equities in Sweden, 98% in US, 91% in Italy, 79% in the UK, 75%, in Germany, and 94% in Spain were owned by residents.¹⁵ However, this situation has changed rapidly, during the last decade. Foreign trading increased between 1995 to 2002 by up to 1852% in the Johannesburg stock exchange, 638% in Germany, 481% in Australian stock exchanges. In addition its about 58% of the total traded value of the London stock exchange, and 24% of Stockholm stock exchange was conducted by non-residents.¹⁶ The share of foreign trading including foreign direct investment has increased significantly because of growing practices of using the GDR and ARD instruments in both secondary and international public offerings in both USA and European markets.

The practice of cross listing is the most significant phenomenon that creates linkages among stock exchanges. The number of dual listed firms has increased significantly during the last decade. Many leading corporations' shares are traded more in foreign stock exchanges than traded in their home exchanges. The majority of foreign firms listed on second stock exchange have to meet dual requirements; other firms that may not meet the second exchange's requirements use the so-called depository receipts as an alternative for cross listing. There are various possible ways of cross-listed firms including direct cross-listed or using alternative methods; cross-listing may be a second listed in another local stock

¹⁴ Barber, Brad M., and Terrance Odean (2002) "Online Investors: Do the Slow Die First?" *Review of Financial Studies* 15; 455-487.

¹⁵ Cooper, I., Kaplanis, E., (1994) Home bias in equity portfolios, inflation hedging, and international capital market equilibrium. *Review of Financial Studies* 7; 45-60.

¹⁶ WFE, (2005) World Federation of Exchanges Data Base (available on line <http://www.world-exchanges.org>).

exchange, or in other foreign exchanges, using one currency or different currencies.

If we look at the geographical spread of the cross-listed firms in the world's stock markets, we may conclude that these are mainly concentrated in the North American and the European stock markets, with few in Latin American, South African and some of Asian stock markets. For example, about 55 of listed firms originated in UK are listed at the same time in other European stock; 55 securities are in NASDAQ, and 46 in NYSE.¹⁷ The practice of cross listing securities increases financial and economic ties and expands the association between different geographical regions.¹⁸ On the other hand cross listing may have some disadvantages as it weakens the local stock exchanges and reducing their annual revenues. Other limitations may exist in certain conditions such as increasing the systemic risk in the home stock exchange and creating price fragmentation.

One of the newest developments in the world's stock markets is the adoption of what is known as an alternative trading system or the non- exchange trading system. It is an alternative trading method to the traditional stock exchange. The traditional stock exchanges are no longer the sole vehicle for stock trading, were the stock prices are determined. The new practice that uses electronic communication networks (ECNs) offers investors the opportunity to send their orders directly to the electronic system, which will match electronically, in a non- discretionary way set by the system operation. Trading outside the traditional stock exchanges may have various advantages. First, it may play a distinct role in the market and solve the conflict of interest problems that exist between brokers and dealers as reported by Macey and O'Hara

¹⁷ Pagano, Marco, Ailsa A. Roell, and Josef Zechner (2002) "The Geography of Equity Listing: Why do companies List aboard?" *Journal of Finance* 57; 2651-2694.

¹⁸ Sabri, Nidal Rashid (2002c) "Cross listings of stocks among European Arab markets" *Finance India* 16; 205-227.

(1999).¹⁹ Second, there is the benefit of offering a trading system round the clock. Third, it fits more with retail investors and allows them to trade anonymously which does not occurred in the traditional stock exchanges. Fourth, it offers the opportunity to trade with less cost under less regulatory environment and it may be considered as a complementary method to handle a part of the stock market trading in case of booming seasons of trading.

Conclusion:

The international stock market witnessed significant changes during the last decade due to the world economic globalization. It now includes about 50,000 securities, thousands of brokers and dealers, and intermediate agencies, hundreds of millions of stockholders with an annual trading value of about 39 trillion US dollars.²⁰ It reached a new level of maturity and development as expressed by various measures including: annual trading values, the turnover ratio, the numbers of listed companies and securities, and number of traded products, derivatives, indexed products and indexed funds, which make stock market more sophisticated and volatile. Moreover, there is a significant change in the mechanism of stock trading due to the advancement in technology, communications, and asset management industry that changed the major features of stock markets. Finally, the phenomenon of globalization is more expanding and going in depth in the world stock markets, but it is still far from being a harmonized unified market.²¹

The new incorporated practices in the world stock markets may have significant positive aspects such as reducing trading cost and transactions, increasing liquidity, increasing transparency, and increasing information sharing between concerned parties. But, on the other side have brought negative aspects

¹⁹ Macey, Jonathan and Maureen O'Hara (1999) "Regulating Exchanges and Alternative Trading Systems: A law and Economics Perspective" *Journal of Legal Studies* 28; 17-54

²⁰ S&P (2003) *Emerging stock markets Factbook 2003* (Standard & Poor's, USA).

²¹ WFE, (2005) *World Federation of Exchanges Data Base* (available on line <http://www.world-exchanges.org>).

including the impairment of market efficiency, and market fragmentation, adverse effects of new legal changes, and adverse effects of new introduced practices. However, these negative aspects do not exist in all periods of stock trading, but they may be materialized and have adverse impact during periods of deep falling prices and unstable periods of trading. Accordingly, and to avoid the adverse affects that might accompany the world globalization, several regulations, and measures need to be adopted in order to keep the world markets work in relevant environment. The relevant environment of the world stock markets includes: low cost of trading and transactions, high level of liquidity and transparency, protecting inventors' interests and other related parties' interests, relevant level of efficiency with less control measures and formal interruptions and the most important stability of stock trading with moderate level of volatility and risk.

Chapter 2. Analysis of the International Stock market indicators.

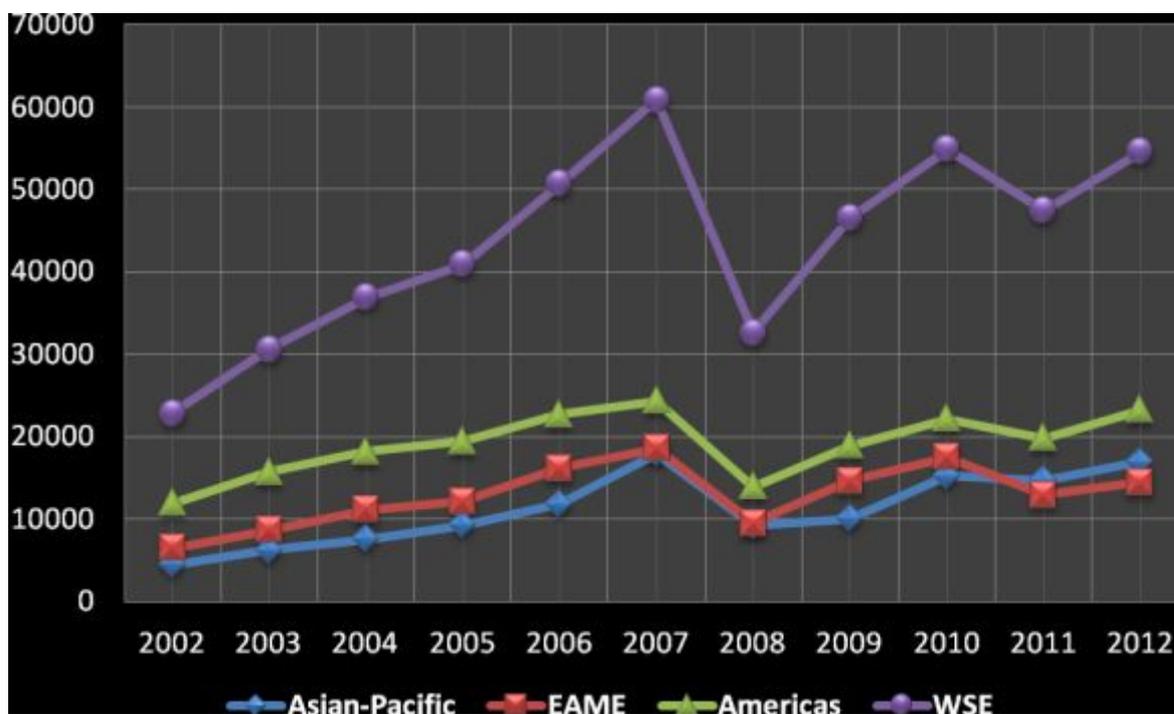
2.1. Major trends of the world stock exchanges.

There exists something of a divide between the historian and the economist in the way each approaches the study of the development of financial markets. The economist tends to concentrate upon identifying long-term trends, the performance of different classes of securities over time, and the lessons for the future. In contrast the historian accepts the uniqueness of past events, stresses the importance of institutional arrangements and recognizes the importance of government intervention. There is a need to marry these two approaches if a fuller understanding of financial markets is to be achieved. It is important to be able to differentiate between that which was the temporary product of a unique set of circumstances, and thus subject to reversal, and that which was driven by permanent and fundamental underlying forces, and thus likely to re-appear. Though it is possible to identify both trends over time and common features among countries, important discontinuities and differences also exist with major implications for the operation of financial markets. This can be seen in terms of the distinctive institutional arrangements governing the operation of securities markets in different countries and in different periods and the different roles played by national governments over time.²² Generalizations are especially interesting when the period under discussion is 10 years, given the degree of intervention in the operation of economic systems by governments and the shocks caused by international financial crisis.

The main total value of the issued shares of publicly traded companies is market capitalization. So, when we say about the global market capitalization, it should be shared into three regions or time zones which consist of Americas, EAME (Europe, Africa and Middle East) and Asia-Pacific. In sum, trends of all three time zones show the situation on the global arena.

²² Ranald C. Michie, *The global securities market in the 20 century: trends, events, governments and institutions*, University of Durham (2006)

Market Capitalization, 2002 – 2012 by regions (in USD trillions)



Source: made by author, based on data of the World Federation of Exchanges.

The decade from 2002 to 2012 was very challenging for world exchanges: the volumes of all products traded were unstable, especially, the indicator of the market capitalization. The major cause of such tendencies was the global financial crisis, consequences of which keeping nowadays. It was constantly growing during five years from 2002 till 2007, when the point was USD 22 tn and reached top in USD 60 trillion (Diagram 1). But, 2008 bring sharply breakdown in two times to USD 32 trillion, by reason of mortgage crisis and banks failures, especially, bankruptcy of Lehman Brothers (Table 1). The possibility of companies to obtain capital by placement of securities significantly reduced. In 2008, the crisis took global nature and began to manifest in the wide decrease of manufacture, falling demand and prices for raw materials, rising unemployment.

Below is a table which compares trends according to official data:

Table 1.

Market capitalization trends, 2002 – 2012 by regions (in USD trillions)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
As-Pac	4437	6264	7535	9310	11838	17920	9221	10032	15277	14670	16929
EAME	6465	8691	11133	12120	16159	18615	9467	14628	17455	12942	14447
Americas	11931	15672	18180	19458	22653	24320	13896	18865	22173	19789	23193
WSE	22833	30627	36848	40888	50650	60855	32584	46525	54885	47401	54569

Source: made by author, based on data of the World Federation of Exchanges.

Thus, proportionally in comparing 2002 and 2012, we see that the last share of the U.S. market fell by 9% and EAME - 2%. Good lift showed the Asian market, increasing volume from 20% to 30%. However, the growth in the capitalization of over 10 years was 139% that certainly is high in view of the results of past events and cataclysm (Diagram 2).

Diagram 2.



Source: made by author, based on data of the World Federation of Exchanges.

The provision of the necessary conditions for the circulation of securities, the determination of their market value and information about them is assigned to the stock exchange. Stock Exchange is a barometer reflecting the situation, conjecture, and the process of the financial market development.

Development of the International stock market is the most important factor that provides the activity accumulation mechanism of investor's funds and direct them to the financing of investment projects.

Further, there is a table of the world top 10 stock exchanges:

Table 2.

Top 10 stock exchanges in world by market capitalization in 2012

	Exchange	USD billion					% change
		2012	2011	2010	2009	2008	in USD
1	NYSE Euronext (US)	14 086	11 796	13 394	11 838	9 209	53%
2	NASDAQ OMX (US)	4 582	3 845	3 889	3 239	2 249	104%
3	Tokyo Stock Exchange Group	3 479	3 325	3 828	3 306	3 116	12%
4	London Stock Exchange	3 397	3 266	3 613	3 454	1 868	82%
5	NYSE Euronext (Europe)	2 832	2 447	2 930	2 869	2 102	35%
6	Hong Kong Exchanges	2 832	2 258	2 711	2 305	1 329	113%
7	Shanghai Stock Exchange	2 547	2 357	2 716	2 705	1 425	79%
8	TMX Group	2 059	1 912	2 170	1 677	1 033	99%
9	BM&FBOVESPA	1 486	1 229	1 546	1 337	592	151%
10	Deutsche Borse	1 387	1 198	1 632	1 306	647	114%

Source: made by author, based on data of the World Federation of Exchanges.

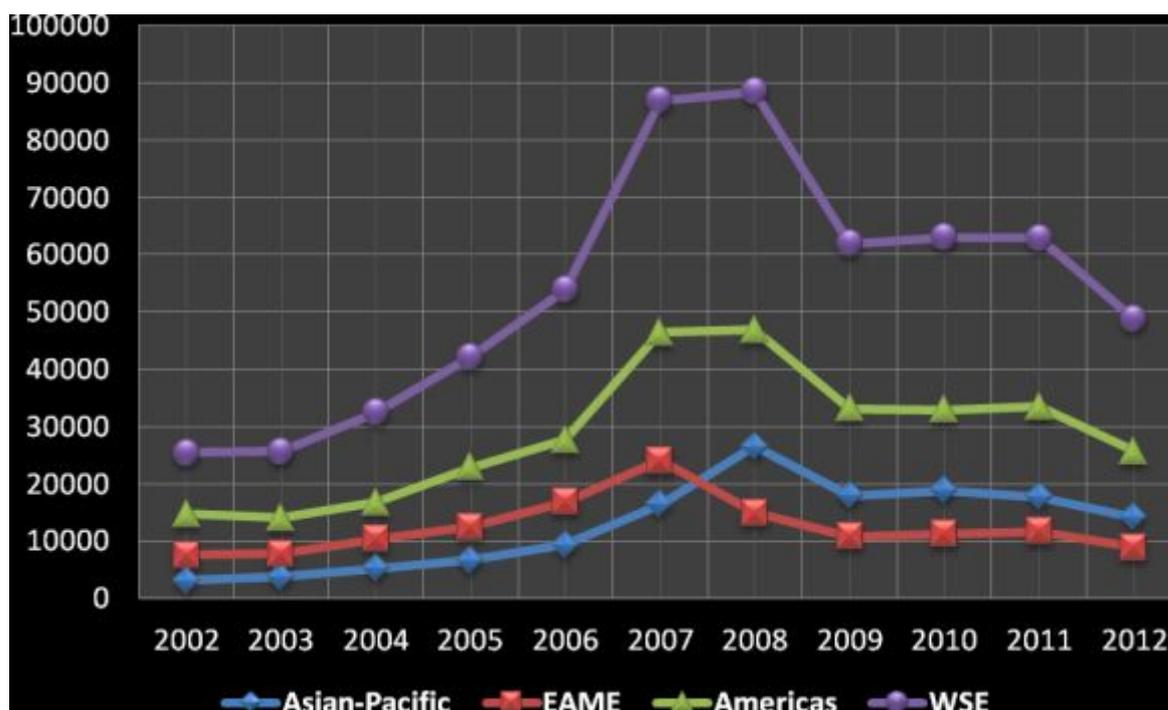
Undoubtedly, the leader in the percentage of development over the past five years is NYSE Euronext (US), if not fall in 2011, the highest point was a lot more then now. Follows in pursuit of the championship is NASDAQ OMX (US), which multiplied its capitalization twice by 2012.

Analyzing the total volume of share trading can be seen that in 2008 the indicators increased more than 3 times compared to 2002, and in 2012 reached only to the level of mid-2005, due to the fact that the fallen sharply in 2009.

Over the last 3 years the rates remain stable and slightly increasing and this is reflected in the three regional markets. The markets are trying to adapt to the post-crisis condition and increase volumes by investing in more needy sectors of the economy, restoring and returning to the level of 2008 (Diagram 3).

Diagram 3.

Total Value of share trading 2002 – 2012 (in USD trillions)



Source: made by author, based on data of the World Federation of Exchanges.

The following table shows the numeric expression trends:

Table 3.

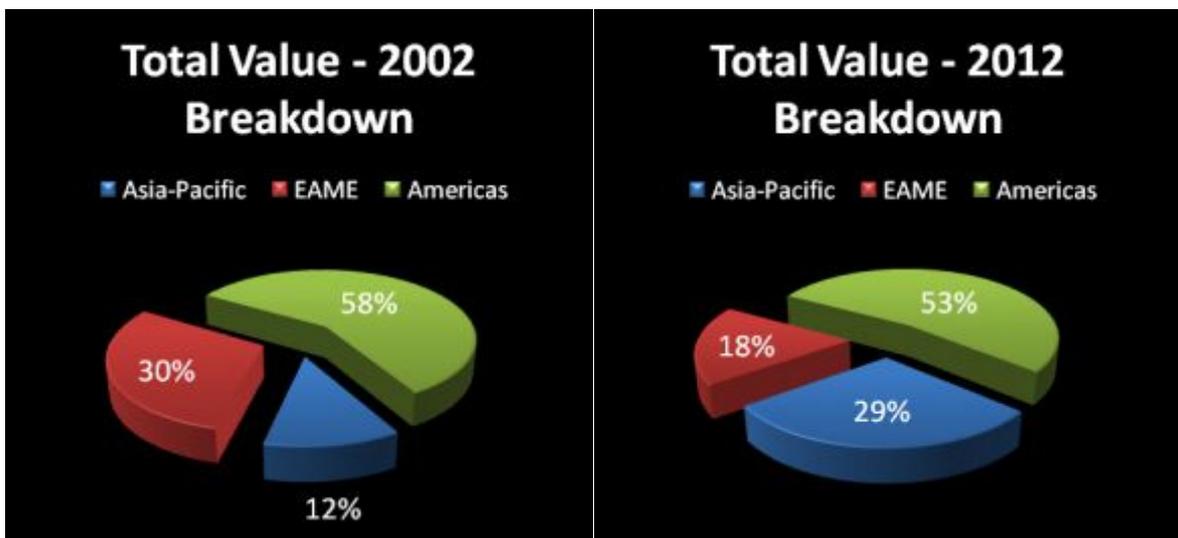
Total Value of share trading 2002 – 2012 by regions (in USD trillions)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
As-Pac	3172	3777	5305	6786	9445	16396	26534	17994	18912	17740	14195
EAME	7611	7826	10457	12503	16832	24112	15036	10843	11265	11799	8951
Americas	14716	14062	16784	22880	27650	46478	46876	33165	32903	33447	25679
WSE	25499	25665	32546	42169	53927	86986	88446	62002	63080	62986	48825

Source: made by author, based on data of the World Federation of Exchanges.

In the context of 2002 America has 58%, Europe holds 30% and Asia is 12%. But comparing with 2012, there are visibly change, America has reduced the rate, thus having 53%, Europe completely fallen to 18%, showing the worst results due to progressive debt crisis in the European Union, which still is a tremendous struggle, and Asia vice versa shows the best results having increased the rates of 2002 and reached 30%, thus entering into second place.

Diagram 4.



Source: made by author, based on data of the World Federation of Exchanges.

Conclusion

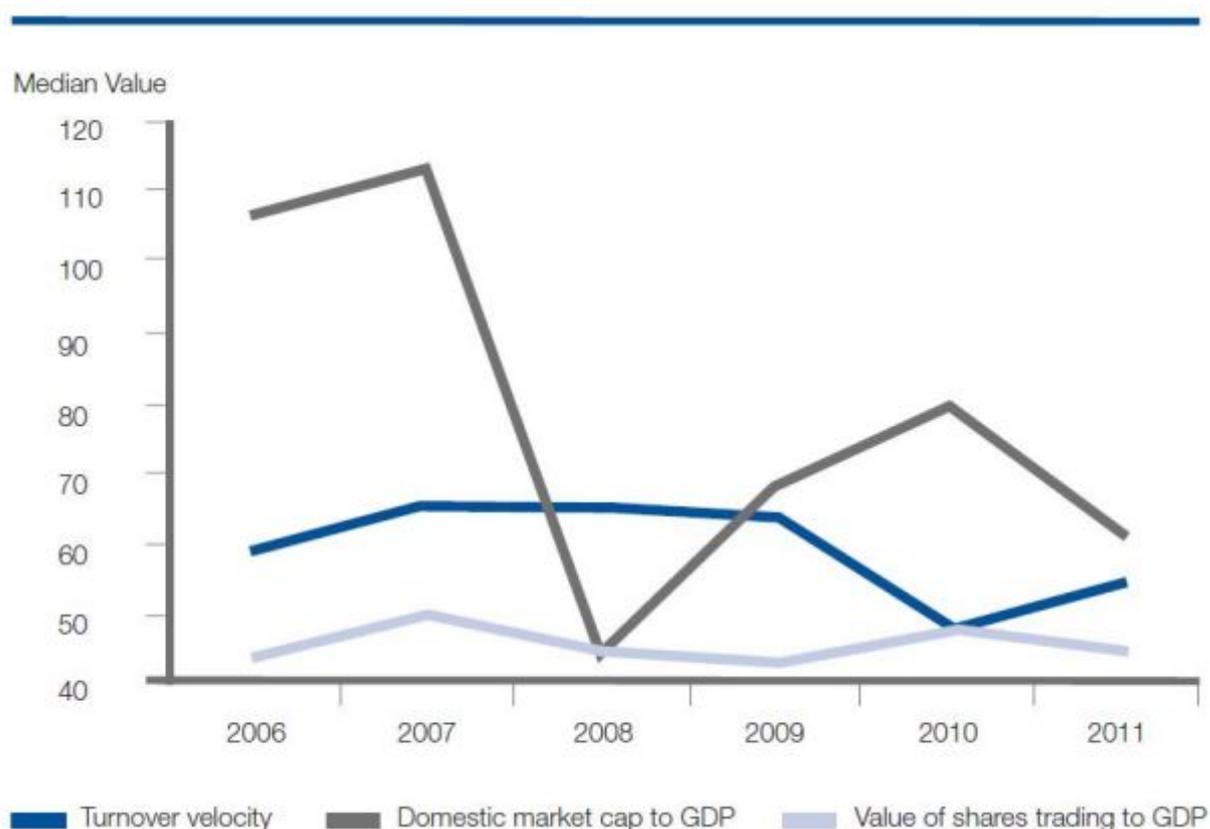
2.2. Impact of the global financial crisis on the International stock market.

The substantial movement across the majority of indicators underlying the IPO activity and equity market development sub pillars warrants a closer examination of the variables over a multi-year period. Given the effects that IPO activity has on the overall equity market development indicators, we assess the IPO activity indicators in the context of changes to equity markets, rather than as isolated variables. Due to cross-country data availability, a small subset of our variables report numbers at a historic base year. This is the case for our equity market development indicators, which are reported with 2010 as the base year. However, given the dynamism of stock markets, we supplement our analysis with more current data from the World Federation of Exchanges.²³

An overall analysis of the global equity market development and IPO activity indicators from 2006 to 2011 provides a general overview of how economies fared throughout the crisis. Figure 1 shows the results of three of the equity market development indicators: turnover velocity, domestic market capitalization to GDP, and value of shares trading to GDP. The most significant change occurred within the domestic market capitalization to GDP indicator, and the variable's largest year-on-year decline took place from 2007 to 2008. This drop, occasioned by the crisis, was driven by two factors, among others: (1) during the crisis, it was more difficult for private companies to list on the stock exchanges, as can be seen in the decline of number of companies listed (see Figure 2); and (2) valuations of shares declined (see value of shares trading to GDP in Figure 1), because many companies found themselves under strain. In line with expectations, domestic market capitalization recovered and increased from 2008 to 2009 and 2009 to 2010, before declining again from 2010 to 2011.

²³ The World Federation of Exchanges data are not deflated and cover 39 of the 62 countries reported in the Financial Development Index this year.

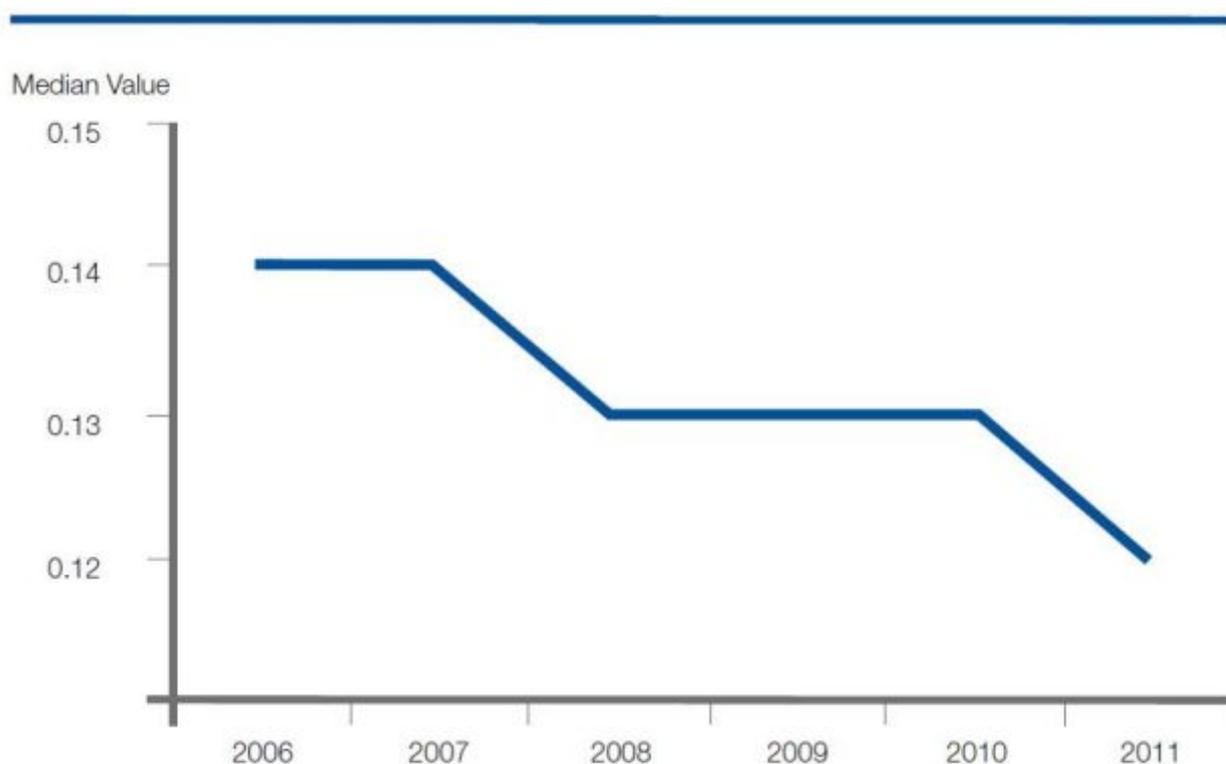
Equity market development indicators, median across country sample



Source: WEF, *the Financial Development Report*, 2012.

Related to the number of companies listed and the value of shares trading are the IPO activity indicators, which are reported as a three-year average. The median for all three IPO indicators declined substantially from 2007-2009 to 2008-2010: 18 percent, 41 percent, and 49 percent for IPO market share, IPO proceeds amount, and share of world IPOs, respectively. Thus, not only the number of IPOs, but also the amount at which they are listed, declined. Interestingly, the turnover velocity indicator remained steady until its decline in 2010 (see Figure 1). This suggests that liquidity was available throughout the crisis, reflecting the effect of some government support systems. Although the indicator drops in 2010, it rebounds in 2011 and moves closer to 2006 levels, possibly indicating that liquidity is stabilizing.

Number of listed companies per 10,000 people, median across country sample



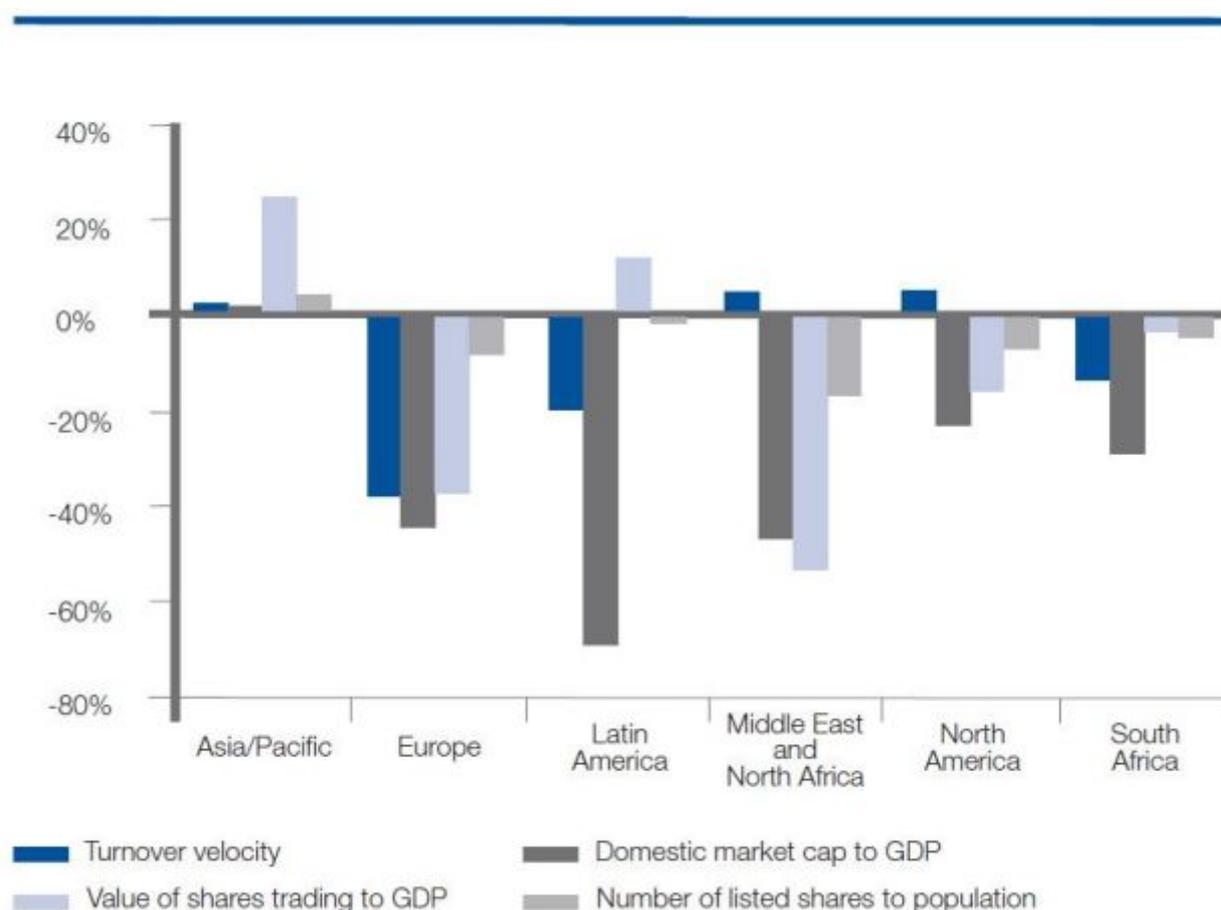
Source: WEF, *the Financial Development Report, 2012*.

A regional dissection of equity market development and IPO activity indicators may prove valuable, given that reactions to the crisis differed across regions, affecting how they emerged. Figure 3 shows that domestic market capitalization to GDP has decreased across most regions, with the exception of Asia/Pacific, where it has seen a minor increase since 2006. A similar picture can be seen in the number of companies listed per 10,000 people, although the declines are smaller. Asia/Pacific is the only region that increased in this indicator over the past five years. While the value of shares trading to GDP has seen a drop in Europe, the Middle East and North Africa, and North America, the Asia/Pacific and Latin America regions have increased their value of shares trading. The Asia/Pacific region, in particular, has experienced a considerable increase of 25 percent. In terms of turnover velocity, Figure 3 shows a decline

for Europe and Latin America, indicating that there may be lingering liquidity issues. In contrast, Asia/Pacific, the Middle East and North Africa, and North America have seen only a minor increase, which suggests that liquidity levels in 2006 and 2011 are at similar levels.

Figure 3.

Equity market indicators across regions, median percent change, 2006-2011



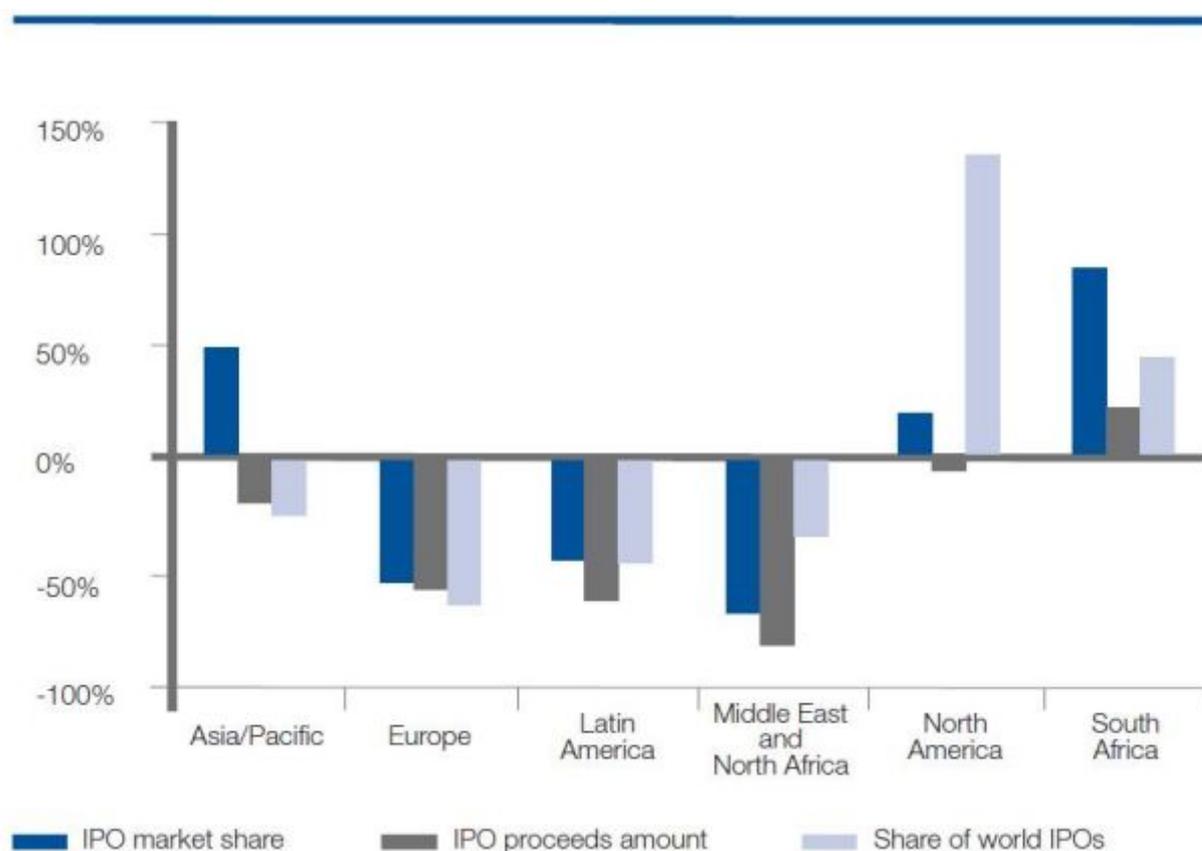
Source: WEF, *the Financial Development Report, 2012*.

Figure 4 shows the IPO activity indicators at a regional level over the period from 2006-2008 to 2009-2011. It is apparent that some of the changes in the equity market development subpillar were influenced by the decline in IPO activity across Europe, Latin America, and the Middle East and North Africa. For Asia/Pacific, results are more mixed, as there is an increase in IPO market share but a decrease in IPO proceeds amount. This suggests that Asia/Pacific’s

decline in proceeds is less than the decline in many other regions, allowing the region to gain market share. North America also presents an interesting picture, as the positive values are driven by a spike in IPOs in Canada, which in 2010 had 25 offerings worth a combined value of US\$5.2 billion.

Figure 4.

IPO activity indicators across regions, median change 2006-2008 to 2009-2011



Source: WEF, *the Financial Development Report*, 2012.

Several regions have large stock exchanges—the United States, Japan, the United Kingdom, China, and Hong Kong account for over 50 percent of the world’s market capitalization (see Table 4). As the data suggest, a majority of the equity market development indicators are still declining in many of these regions, warranting a closer examination of the countries that host the largest exchanges.

Figure 5 (Appendix 1) shows that turnover velocity slightly increased from 2006 levels for all countries, except in the United Kingdom, where it is still 45 percent lower than in 2006. This is not particularly surprising, given the ongoing troubles in the euro zone and the lack of an obvious solution. From 2010 to 2011, turnover velocity decreased in China and the United Kingdom by 2 percent and 1 percent, respectively. The remaining three markets all experienced an increase over the past year.

Table 4.

Top stock exchanges by market capitalization

RANK	STOCK EXCHANGE	DOMESTIC MARKET CAPITALIZATION (US\$ BILLIONS)	SHARE OF THE WORLD
1	NYSE	11,795.6	25%
2	NASDAQ	3,845.1	8%
3	Tokyo Stock Exchange	3,325.4	7%
4	London Stock Exchange	3,266.4	7%
5	Shanghai Stock Exchange	2,357.4	5%
6	Hong Kong Stock Exchange	2,258.0	5%
7	Toronto Stock Exchange	1,912.1	4%
8	BM&F Bovespa	1,228.9	3%
9	Australian Securities Exchange	1,198.2	3%
10	Deutsche Borse	1,184.5	2%
	Rest of world	15,075.6	32%
	Total	47,447.2	100%

Source: WEF, *the Financial Development Report, 2012*.

Since 2006, domestic market capitalization to GDP has increased for both China and Hong Kong. In contrast, Japan, the United Kingdom, and the United States all experienced declines over the past five years. Interestingly, from 2010

to 2011, domestic market capitalization to GDP has fallen for all five economies, with China experiencing the largest decline, at 31 percent.

Whereas the value of shares trading to GDP has increased substantially in China and Hong Kong since 2006 (109 percent and 49 percent, respectively), the United Kingdom has seen only a modest increase of 2 percent (see Figure 5 as Appendix 1). Over the same period, Japan and the United States declined 47 and 16 percent, respectively. Looking only at the year over - year change from 2010 to 2011, it is clear that all five economies have experienced a decrease in the value trading relative to GDP. China and Hong Kong experienced the largest declines, at 34 percent and 11 percent, respectively.

A similar picture presents itself for the number of listed companies per 10,000 people. China and Hong Kong have both increased since 2006 (61 percent and 24 percent, respectively), while the other three economies have declined, with the United Kingdom experiencing the largest decrease, of 14 percent. Year-on-year changes see a continuation of China and Hong Kong increasing, and Japan, the United Kingdom, and the United States declining.

Many of these changes are in line with the movement seen across the IPO activity indicators. Figure 6 (Appendix 2) shows a decline in all three indicators for Japan, the United Kingdom, and the United States from 2006-2008 to 2009-2011. While both China and Hong Kong increased in IPO market share, China experienced a slight decline of 4 percent for IPO proceeds amount, while Hong Kong saw an increase of 81 percent. This picture reverses itself in the share of world IPO indicator; China more than doubled, while Hong Kong decreased by 32 percent.

The results discussed above indicate that liquidity is stabilizing across the countries that host the world's major stock markets, with the exception of the United Kingdom. Nevertheless, domestic market capitalization to GDP is still declining in three of the five countries examined. Among the factors that influence this drop are declines in value of shares trading to GDP, the number of

listed companies per 10,000 people, and the IPO activity indicators. Policymakers should be mindful of these weaknesses and take concerted action if conditions continue to deteriorate.

While some high-level trends were highlighted earlier, it is at the country level that some of the potentially most useful findings can be seen. The Country Profiles contained provide detailed information with which to undertake this analysis. A summary of highlights, by region, are presented below.

The United States places 2nd overall for the second consecutive year. The United States continues to be the world leader in both non-banking financial services (1st) and financial markets (1st). It holds the top position across a number of financial intermediation-related subpillars, including: insurance, securitization, foreign exchange markets, and derivatives markets. Although there was little movement within these pillars, the United States did show slight improvement in equity (5th) and bond market development (3rd). Nevertheless, the United States remains comparatively weak in terms of factors, policies, and institutions. While it made a strong jump in financial sector liberalization (1st), the country saw a minor setback in the business environment pillar (13th), primarily because of an inefficient tax regime (30th). Financial stability (38th) continues to be the area of greatest weakness for the United States. However, it should be noted that the country exhibited an improvement in its banking system stability (40th) score, which may indicate a shift in the right direction. With regard to financial access (5th), the United States exhibits mixed results. Whereas retail access (4th) scores are quite strong, commercial access (17th) results are comparatively weak.

Canada, which ranks 6th overall for the third consecutive year, ranks quite high across most pillars. Canada is particularly strong in factors, policies, and institutions, ranking 6th and 9th in the institutional and business environment pillars, respectively. Financial system stability (13th) pillar results are comparatively weak, and although Canada has a highly stable banking system

(5th), the country's currency (46th) is quite unstable. The eight-spot decline that Canada experienced in the currency stability subpillar can be attributed to decreases in the current account balance to GDP (45th) and net international investment position to GDP (14th) indicators. Canada's other area of relative weakness is banking financial services (13th). Over the past year, Canada dropped in rank in both the size (19th) and efficiency (16th) indices. Despite this weakness, Canada is still strong in terms of financial intermediation, as evidenced by its high rank in the non-banking financial services (7th) and financial markets (10th) subpillars. Although Canada ranks quite high in the retail access (3rd) pillar, it could improve access to commercial capital (12th).

Like the United States, **the United Kingdom** (3rd) maintains its position in the 2012 Financial Development Index. The United Kingdom's strength resides primarily in the financial intermediation pillars—banking financial services, non-banking financial services, and financial markets. Although the United Kingdom's banking financial services (2nd) are highly developed, the country experienced a five-spot decline in the efficiency index (23rd). This decrease was balanced by improvements in other areas of financial intermediation, such as securitization (4th) and equity market development (9th), which saw jumps in rank of eight and 10 spots, respectively. The United Kingdom's strong institutional (2nd) and business environment (8th) is attributable to a liberalized financial sector (1st), an ability to effectively enforce contracts (3rd), a strong legal and regulatory framework (6th), and welldeveloped infrastructure (7th). While the United Kingdom still suffers from financial instability (43rd), the country has shown improvement in the banking system stability (44th) subpillar.

Switzerland moved up one spot to place 8th overall in this year's Index. Switzerland's jump, albeit small, can be attributed partly to a boost in non-banking financial services (15th), specifically jumps in rank of 33, seven, and five spots in the IPO activity (14th), securitization (37th), and insurance (5th)

subpillars, respectively. Switzerland continues to benefit from well-developed financial markets (7th), as well as a highly stable financial system (2nd). Switzerland jumped six spots to attain the top rank in currency stability. This is due to positive developments in the change in real effective exchange rate (13th) and current account balance to GDP (4th) indicators. Offsetting these areas of strength is relative weakness in banking financial services (16th). Although Switzerland's banking system is quite large (8th), it is relatively inefficient (30th). Financial information disclosure (45th) continues to be an area in need of improvement.

The Netherlands fell two spots to 9th in this year's Index, primarily because of weakness in the financial markets pillar (17th). Specifically, the Netherlands' overall position was hurt by weakness in the equity (19th) and bond (9th) market development subpillars. Financial stability (16th) continues to be an area of weakness in spite of the improvements made in banking system stability (21st). Nevertheless, the country benefits from a large (4th) banking system, strong corporate governance mechanisms (5th), highly-developed infrastructure (5th), and a talented human capital pool (6th). The Netherlands has development disadvantages in both the commercial (19th) and retail (17th) access subpillars. While the Netherlands benefits from a sophisticated financial market (7th) and high debit card penetration (1st), it is hindered by relatively low foreign direct investment (38th) and a low number of ATMs (28th).

The Scandinavian countries—**Sweden (10th), Denmark (12th), Norway (13th), and Finland (17th)**—all rank within the top 20 in this year's Index. While Sweden, Denmark and Finland all increased their positions, Norway fell three spots. All four countries rank in the top 10 in both the institutional and business environment pillars. Whereas Sweden and Denmark rank first in financial sector liberalization, Norway and Finland place quite low, at 18th and 24th, respectively. Nevertheless, Norway has strong contract enforcement (4th) mechanisms and a low cost of doing business (3rd), while Finland benefits from

effective corporate governance (1st) and a well-developed human capital pool (1st). Various aspects of financial intermediation appear to be the greatest weakness for the Scandinavian countries. All four countries have development disadvantages in non-banking financial services, with Finland ranking the lowest, at 49th. Sweden, Finland, and Denmark experienced considerable improvements in financial access (1st, 8th, and 9th, respectively), particularly in the area of retail access to capital (1st, 10th, and 7th, respectively). On the other hand, Norway experienced declines in the financial access (17th) pillar and commercial access (9th) subpillar.

Germany moved up three spots to 11th overall. The increase in rank is driven by jumps in financial stability (18th), banking financial services (12th), and financial access (16th). Regarding financial stability, Germany experienced positive results in both the banking system stability (20th) and risk of sovereign debt crisis (13th) subpillars. The reduced threat of sovereign debt crisis can be partly attributed to the decline in credit default swap spreads (11th) and an improved score in the aggregate macroeconomic indicator (17th). The improvement in Germany's banking financial services score is due to the increase in size (11th) and efficiency (29th) of the country's banking system. An improvement in financial access can be explained by positive developments in both commercial (30th) and retail access (15th) scores. These gains have been counterbalanced by an increasingly unstable currency system (24th) and weakness in the equity (30th) and bond market development (17th) subpillars.

France (14th) fell two spots in this year's Index because of decreases in the financial stability (42nd) and financial markets (11th) pillars. Greater financial instability can be attributed to currency (40th) and banking system (49th) volatility, and France scores particularly low in the change in real effective exchange rate (40th) and aggregate measure of real estate bubble (44th) indicators. With regards to France's financial markets, the country experienced drops in both equity (25th) and bond market development (7th). Additional areas

for improvement include taxes (45th), financial information disclosure (36th), and commercial access (35th). Despite these areas of weakness, France benefits from a liberalized financial sector (1st), highly developed infrastructure (6th), and a robust foreign exchange market (8th). Retail access to capital (6th) is also quite solid, as France has both a high number of commercial bank branches (6th) and a high market penetration of bank accounts (10th).

Hong Kong SAR maintains the top spot in the 2012 Financial Development Index. In terms of factors, policies, and institutions, Hong Kong scores quite high in the business environment (2nd) pillar. Areas of particular strength include the taxes (3rd) and infrastructure (1st) subpillars. In the financial stability pillar (8th), Hong Kong has fallen four spots. This can be partially attributed to a drop in rank and score in the risk of sovereign debt crisis (10th) subpillar. More specifically, Hong Kong showed weakness in the aggregate macroeconomic indicator (44th), as well as in manageability of public debt (22nd). With regards to financial intermediation, Hong Kong benefits from both a large (2nd) and efficient (1st) banking system. Despite these areas of considerable strength, Hong Kong does show relative weakness in non-banking financial services (10th), particularly the securitization (25th) subpillar. Hong Kong fell three spots in the financial access (4th) pillar. While commercial access to capital (1st) remains very strong, retail access (18th) is a clear area for improvement.

Although **Singapore** (4th) maintained its position in this year's Index, the country did experience an increase in overall score. Singapore showed improvement in the financial stability pillar (3rd), moving up five spots. Singapore's stable currency system (2nd) is driven by strong results in the current account balance to GDP (2nd), net international investment position to GDP (2nd), and dollarization vulnerability indicator variables (1st). Although Singapore has exhibited strong results in banking financial services (10th), the country does show weakness in the financial information disclosure (32nd)

subpillar. In terms of financial intermediation, Singapore scores best in the financial markets (3rd) pillar. The country has highly developed foreign exchange (4th), derivatives (5th), and equity markets (2nd). Despite these areas of strength, Singapore lacks a well-developed bond market (25th). Financial access (14th) scores are mixed, with Singapore scoring high in terms of commercial access to capital (2nd) but quite low with regards to retail access (31st).

Australia has, for the third year in a row, finished behind Singapore, at 5th place. Although Australia did not experience considerable changes at the Index level, the country did exhibit some positive developments in the pillars and subpillars. For instance, Australia has improved in terms of financial stability (9th), moving up four spots. The change is due in part to increased banking system stability (9th). Financial intermediation continues to be area of strength, with Australia scoring high across the non-banking financial services (5th), banking financial services (7th), and financial markets (8th) pillars. Although improvements in the M&A activity (3rd), insurance (12th), and securitization (8th) subpillars provided a boon to Australia's non-banking financial services results, the country experienced a slight decrease in score in the IPO activity (11th) subpillar. Australia's decline of four spots in the financial access (6th) pillar is driven primarily by weakness in retail access (5th), specifically the comparatively low number of commercial bank branches (13th) and debit card penetration (11th).

Japan's 7th place rank, up one spot from last year, is bolstered by strong scores in the banking financial services (3rd), non-banking financial services (6th), and financial markets (5th) pillars. While Japan's banking system is both large (3rd) and efficient (5th), the country lags in terms of financial information disclosure (17th). The country's business environment (19th) is also relatively weak by developed country standards. Comparatively speaking, Japan suffers from a weak human capital (19th) pool, a less-than-optimal tax regime (24th),

and a high cost of doing business (20th). Despite these areas of relative weakness, Japan benefits from having highly developed foreign exchange (3rd) and derivatives markets (6th). Financial access continues to be a development disadvantage for Japan. The country's commercial access (36th) scores fell sharply because of declines in the ease of access to credit (20th), financing through local equity market (14th), and foreign direct investment to GDP (60th) indicators.

China fell four spots in the 2012 Financial Development Index, placing 23rd overall. The decline can be attributed to a decrease in scores in the banking financial services (17th) and financial access (41st) pillars. These changes are due, in part, to greater banking system instability (55th) and by weak results in both the commercial (37th) and retail access (38th) subpillars. China also experienced declines of 11, five, and seven spots in the insurance (15th), bond market development (24th), and financial sector liberalization (44th) subpillars, respectively. Despite these areas of weakness, China retains development advantages across a number of pillars and subpillars. China scores particularly high in non-banking financial services (4th), with IPO (1st) and M&A activity (5th) being especially robust. Still, there is considerable room to improve China's business environment (47th), which remains the country's worst-performing pillar.²⁴

Conclusion

The 2008 crisis brought the financial world to the brink of collapse. Since then, there have been a number of initiatives to identify and address the issues that led to the onset of the crisis. Although the recovery has been much slower than desired, positive developments are evident in the form of higher Tier 1 capital ratios and a lower number of non-performing loans. While this may be a step in the right direction, the path to full recovery is still long. High

²⁴ World Economic Forum, The Financial Development Report (2012)

unemployment, low growth, and unsustainable debt levels could be interpreted as yet another looming crisis. Moreover, waning trust in the system and its actors is reflected in volatile stock markets.

Weaknesses in the equity market indicators suggest that further volatility in the stock markets can be expected, at least in the near term. Although leaders will be stretched thin to find solutions to both domestic and international problems, it is imperative that they address these issues to ensure that the foundations that allow financial systems to develop are in place.

Chapter 3. Development prospects of the International stock market

3.1. Prediction of the International Stock market for nearest future.

Stock market prediction is the act of trying to determine the future value of a company stock or other financial instrument traded on a financial exchange. The successful prediction of a stock's future price could yield significant profit. The efficient-market hypothesis suggests that stock price movements are governed by the random walk hypothesis and thus are inherently unpredictable. Others disagree and those with this viewpoint possess a myriad of methods and technologies which purportedly allow them to gain future price information.²⁵

Plenty of money managers prefer to keep their views private, but a few don't mind making public predictions. As most of these investors manage billions of dollars, their expectations for the market might carry some weight.

Gundlach is primarily a bond investor. His Double Line Capital reached \$50 billion in assets under management in November of last year.

Despite Gundlach's bond focus, he isn't shy about voicing his opinion of stocks: He was famously bearish on Apple shares since about April of last year, and still believes that shares could ultimately break below \$400.

As for the stock market in 2013, Gundlach is bearish on U.S. stocks, but not all stock markets in general. He recommended that investors sell U.S. shares and buy Chinese stocks at the beginning of the year.

Jim Rogers doesn't invest others' money anymore, but his views are still widely respected. He founded the Quantum Fund with another famous investor - - George Soros. At the Quantum Fund, the pair had a ten-year stretch where the

²⁵ Graham, B. The Intelligent Investor. HarperCollins; RevEd edition, 2003.

value of their portfolio gained 4,200 percent compared to an advance of around 47 percent for the S&P 500.

Rogers has been consistently critical of Federal Reserve policy and has said previously that he was shorting some U.S. stocks while being long commodities. He reiterated his long commodity position during the last week, saying he “owns them all.” He also warned once again that the Fed's easing policies, and similar monetary policy around the world, would eventually end in disaster.

Robert Doll is Nuveen Asset Management's chief equity strategist. His firm manages \$117 billion. He recently told Bloomberg that the Fed's interest rate policy will allow the stock market to extend its gains. He likes U.S. and emerging market stocks but said that he was concerned about European and Japanese equities.

“The fundamentals, meaning corporate earnings, macroeconomics, delay of problems in Washington, zero-percent return on cash, and monetary accommodation virtually everywhere in the world,” Doll said in a Bloomberg Television interview. “They're the ingredients to me for stocks to go higher.”

Speaking at the Barron's annual round table, noted value investor Mario Gabelli said that he is positive on U.S. stocks, but he doesn't think the market will close up more than five percent in 2013. Gabelli is one of the wealthiest investors in America and runs GAMCO Investors, a \$30 billion global investment firm.

While Gabelli expressed mild optimism about the broader market for 2013, he was enthusiastic about the atmosphere for event driven investing in individual stocks.

He said “I have never been more excited about specific stocks. This year, you will be able to make a lot of money as a result of financial engineering --

companies engaging in deals, takeovers, split-ups, spinoffs, and such. It is a phenomenal time to make money in the market.”

Felix Zulauf, the founder of Zug, Switzerland-based hedge fund Zulauf Asset Management, was more bearish than many money managers when he offered up his view for 2013 at the Barron's Roundtable. He said that the rally in risk assets is “late in the cycle” and that the market would fall between the second and third quarters as unresolved crises will re-emerge.

Unlike some observers, Zalauf is not a believer in a European recovery and said that he thinks interest rates will begin to rise once again for countries like Greece, Spain and Italy, reigniting the crisis.

“It is difficult to time such things, but around the middle of the year, the markets will start to reverse. I don't know whether they will end the year slightly up or slightly down. I expect the first half of 2013 to be friendly to equity markets, and the second half to be unfriendly, with risk rising.”

Brian Rogers

Brian Rogers is the Chairman and Chief Investment Officer of T. Rowe Price Group. Speaking at the Barron's Roundtable, he said that he is expecting a fairly good year for equities in 2013. Rogers added that one thing that has the potential to boost equity returns in the year is money rotating out of bonds and into the stock market.

While he is not as optimistic about S&P 500 earnings growth in 2013 as some market strategists, he does think that the equity market is attractive relative to fixed income.

Rogers argues that “a combination of decent economic performance, reasonable valuations, and decent dividend activity suggests stocks could do well this year.”

Scott Black

Scott Black also shared his view for 2013 at the Barron's Roundtable discussion in January. He is the founder of Boston-based money management firm Delphi Management. Black said that his firm is modeling an earnings increase for the S&P 500 of around 5% for the year and that using these estimates the market looks fairly cheap. In particular, Black argued that large cap stocks are “systemically underpriced.”

The major obstacle that he pointed to for the year is the potential fight over the debt ceiling. Black noted that from “a July 7, 2011 market peak through October 3, 2011, trough, a period encompassing the prior debt-ceiling fight, the S&P 500 fell 18.8%. You can't rule out the possibility of something similar happening this year.”²⁶

However, the prediction is nothing when huge number of determining factors and circumstances may begin to spin round so that no one expects. But most of predictions are positive and aimed on stable and steady growth of the International stock market.

3.2. Uzbekistan stock market: learning of world experience and development of Republican Stock Exchange “Toshkent”.

Securities market is one of the most important elements of market economy, and the essential institution of a market economy is a stock exchange.

Republican Stock Exchange “Toshkent” - is a organized and regularly functioning securities market, where, together with other organizations in securities market infrastructure (Central depository, Settlement and Clearing House, Secondary level depository, brokerage offices), all necessary conditions are established for free access of all subjects of the stock market to invest resources through activation of securities transactions.

²⁶ Scott Rubin, 2013 Market predictions from 10 top money managers, <http://www.benzinga.com/> web site, 2013

Republican Stock Exchange “Toshkent” was founded in accordance with the Decree of the President of the Republic of Uzbekistan of January 21, 1994 № 745 “On measures for further deepening of economic reforms, provision of private property protection and development of entrepreneurship”.

Today the stock exchange is an active participant in the formation of national securities market, the dynamic development of which is a prerequisite for sustainable economic growth.

Through exchange trades various sectors of the economy in the form of joint stock companies created on the basis of privatized enterprises, acquire real property owners and, thereafter, significant funds for major restructuring and modernization, and the newly established joint stock companies - additional financial resources for performing of their investment projects.

Joint stock companies of Uzbekistan by means of realization of their own securities through trading platforms of the Republican Stock Exchange “Toshkent” have the opportunity to attract practically unlimited investment resources for their development of both internal and external capital market.

Thereby, assessing the role of the Republican Stock Exchange “Toshkent” in the formation of the national securities market, we can surely state that its creation has allowed for conducting trades with exchange tools as accessible and open to all potential investors as possible.

Republican Stock Exchange “Toshkent” is the main marketplace on corporate securities market in the Republic of Uzbekistan. The proportion of the stock turnover at the end of 2011 amounted to 13.3% of the total turnover of the securities market (at the end of 2010 the figure was only 3.8%).

Analysis of the dynamics of stock turnover for the last five years shows us that stock market in 2011 year showed very rapid growth. Thus, in 2007-2008, the volume of securities transactions slightly exceeded the mark of 100 billion

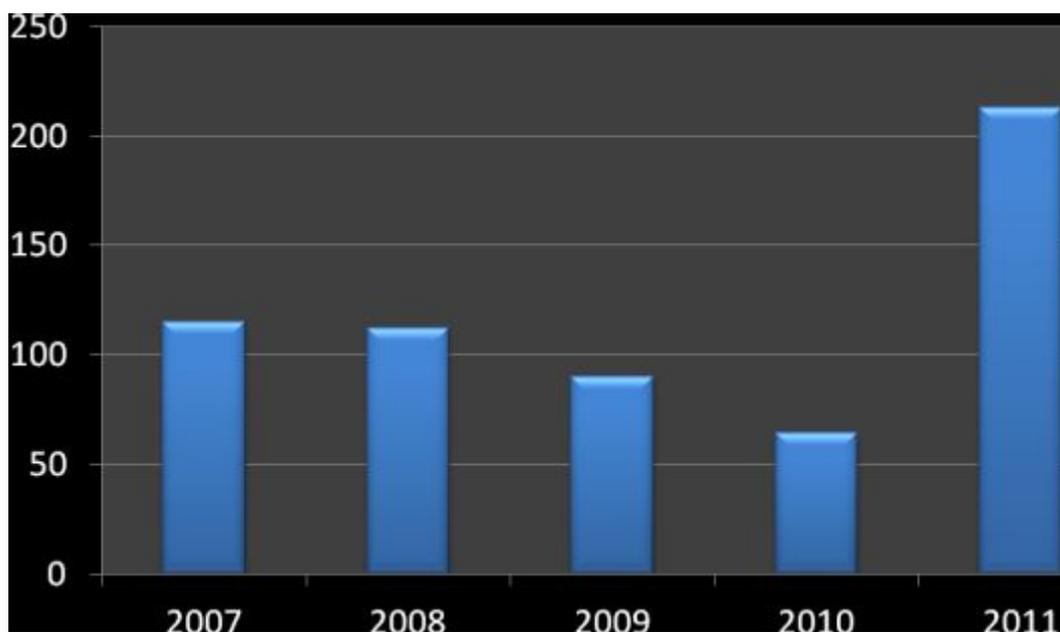
sums, but in the next two years there was a decline in the stock turnover and in 2010 the turnover reached its minimum value of 64.4 billion sums.

2011 was the most productive for the entire period of the exchange. As a result of significant recovery of the stock exchange market and activation of its members in the last year, turnover of securities amounted to 213.1 billion sums, which is more than 3 times higher than this indicator in 2010 (64.4 billion sums).

There were concluded 1134 exchange transactions, which resulted in 224711.9 thousand units of realized shares of 112 joint stock companies and 69.0 thousand units of bonds of 3 issuers.

Diagram 5.

Dynamics of the RSE Toshkent's turnover in 2007-2011



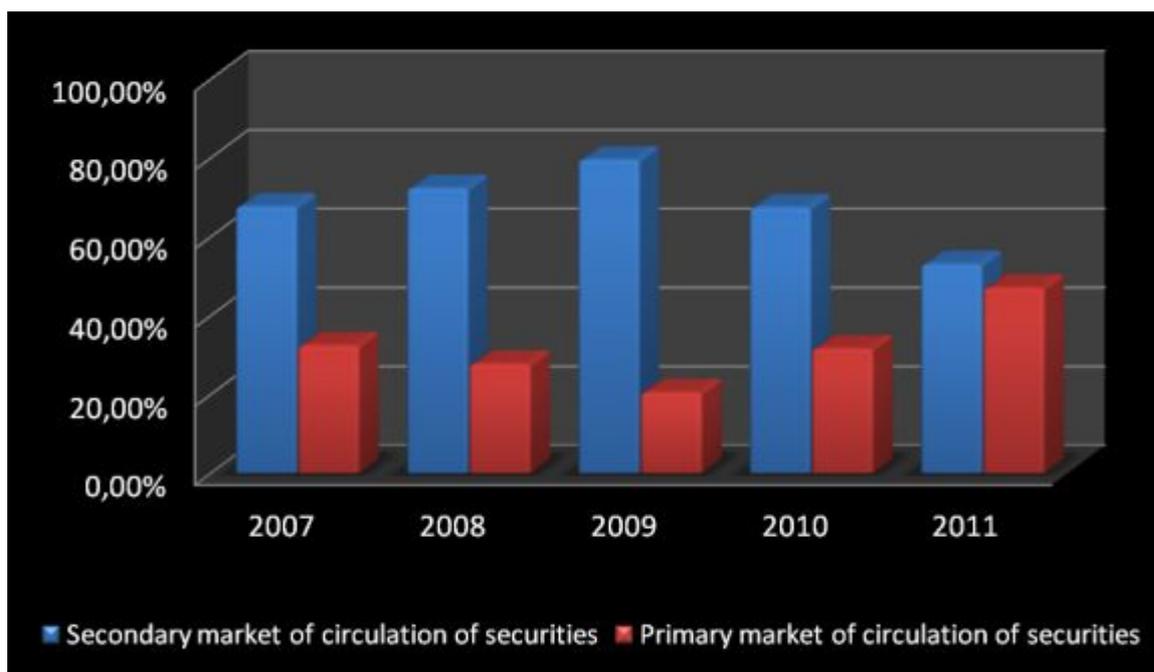
Source: made by author, based on data from Republican stock exchange web site <http://www.uzse.uz>

One of the main indicators of the competitiveness of Uzbekistan's securities market is the degree of development of the secondary market. Proof of this is the dominance of the secondary market circulation of securities in the structure of the total stock market turnover for the past five years.

The high trading activity of the stock market circulation in the past year has led to an expansion of the secondary securities market, compared with 2010 (44.0 billion sums) of almost 2.5 times.

Diagram 6.

**The dynamics of secondary market circulation of securities at the RSE
“Toshkent” in 2007-2011**



Source: made by author, based on data from Republican stock exchange web site <http://www.uzse.uz>

The proportion of the primary market in 2011 is 47.0% of total stock market turnover, or 100.2 billion sums.

Thereby, the volume indices of the stock turnover in securities are as follows:

- placement volume in the primary market:
- shares of privatized enterprises - 6.8 billion sums (in 2010 – not available);
- shares of additional issuances - 59.03 billion sums (in 2010 - 20.3 billion sums);
- corporate bonds - 34.4 billion sums (2010 - 0,001 billion sums).
- circulation volume in the secondary market amounted to:

- shares - 77.3 billion sums (in 2010 - 44.03 billion sums);
- corporate bonds - 35.7 billion sums (in 2010 – not available).

Analysis of stock turnover on investment attractiveness of securities upon primary placement and secondary circulation of securities at the RSE “Toshkent” shows the following.

Upon primary placement of the first time emitted shares and bonds of joint stock companies on the basis of 2011 results the proportion of issuances of bank securities accounts for the major part of obtained funds - 67.8% of the securities volumes of additional issuances.

The number of issuers that successfully have placed their additional issues through stock exchange, also includes enterprises of industrial sector (e.g. bonds of JSC “Uzavtosanoat”) - 25.8% and trade - 6.4%.

Table 5.

The results of trades at RSE “Toshkent” in 2011

	Trade volume in the primary market		Trade volume in the secondary market		Total trade volume	
	Trade volume (billion sums)	Number of transactions	Trade volume (billion sums)	Number of transactions	Trade volume (billion sums)	Number of transactions
2010	20, 3	239	44, 0	1 638	64,4	1 877
2011	100, 2	356	112, 9	778	213,1	1 134
Change, %	392	49	156	-52	231	-39

Source: made by author, based on data from Republican stock exchange web site <http://www.uzse.uz>

Securities of commercial banks take a leading position in the secondary stock market - 65.4% of secondary circulation volume. The greatest interest of investors in the secondary stock market is aroused also by the securities of industry enterprises - 19.4%.

Analysis of the value of the amount of settled transactions with securities of issuers, circulated on the stock market in 2011, showed that the largest transaction was made on February 24 with bonds of the National Bank of

Foreign Economic Activity of the Republic of Uzbekistan (NBU). Its amount totaled 25.6 billion sums, and the number of bonds sold - 25.0 thousand.

According to the results of rankings, conducted among companies whose securities were traded at the Stock Exchange during 2011, the leader in trading volume was State Stock Commercial Bank “Asaka” with a market share of 18.9%.

10 joint stock companies whose securities according to the 2011 results relate to the greatest amounts of transactions are given below in the following table:

Table 6.

Rating of issuers with the largest amounts of transactions 2011

№	Name of the issuer	Total amount of transactions, billion sums.	Proportion of the stock turnover, %
1	Asaka bank	40 368	18,9
2	National Bank of FEA RUz	35 660	16,7
3	SC O'ZAVTOSANOAT	24 110	11,3
4	O`zbekiston sanoat-qurilish banki	14 421	6,8
5	IPOTEKA- BANK	13 204	6,2
6	UZKABEL	12 431	5,8
7	Ipak Yoli Uzinkombank	7 118	3,3
8	Markaziy Ippodrom	6 756	3,2
9	Qarshi Markaziy Buyum savdo	5 943	2,8
10	Kapital Sug`urta	4 783	2,2
	Total	164 794	77,3

Source: made by author, based on data from Republican stock exchange web site <http://www.uzse.uz>

Structural indicators of stock market

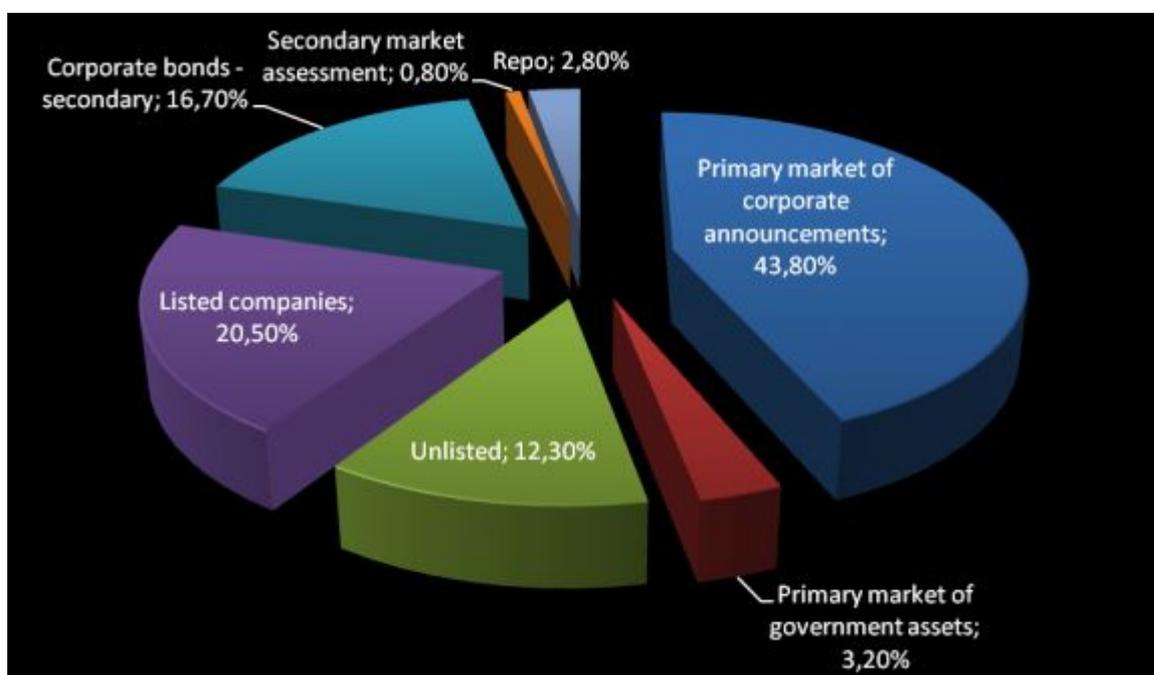
Structural indicators of the stock market in the aspect of trading platforms in 2011 are as follows:

- section for primary placement of state assets - 10 transactions of 6.8 bln sums;

- section for primary placement of corporate securities (shares and bonds) - 347 transactions of 93.4 billion sums;
- section for circulation of listed enterprises - 405 transactions of 43.6 billion sums;
- section for circulation of non-listed companies - 335 transactions of 26.2 billion sums;
- section for circulation of shares subject to assessment – 2 transactions of 1.6 billion sums;
- section of repo - 33 transactions worth 5.8 billion sums;
- section of secondary circulation of bonds - 2 transactions of 35.7 billion sums.

Diagram 7.

Stock market's structure in the aspect of trading platforms in 2011

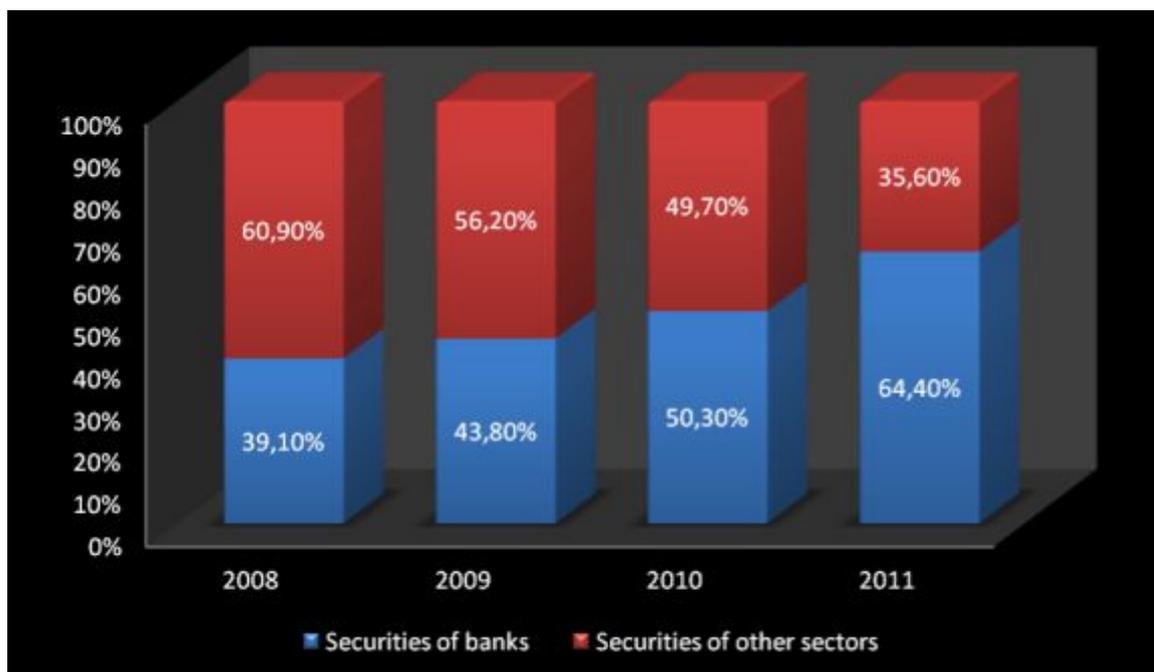


Source: made by author, based on data from Republican stock exchange web site <http://www.uzse.uz>

The analysis of indicators on stock exchange's activities in 2011 on sectors of economy shows that a large impact on the stock market has had an increasing demand for securities of non-raw-material sectors of economy with higher added value. Among them the most investment attractive were securities of companies engaged in the financial services sector, particularly banks.

Diagram 8.

Dynamics of the proportion of securities issued by commercial banks from the total turnover of the RSE “Toshkent” in 2008-2011



Source: made by author, based on data from Republican stock exchange web site <http://www.uzse.uz>

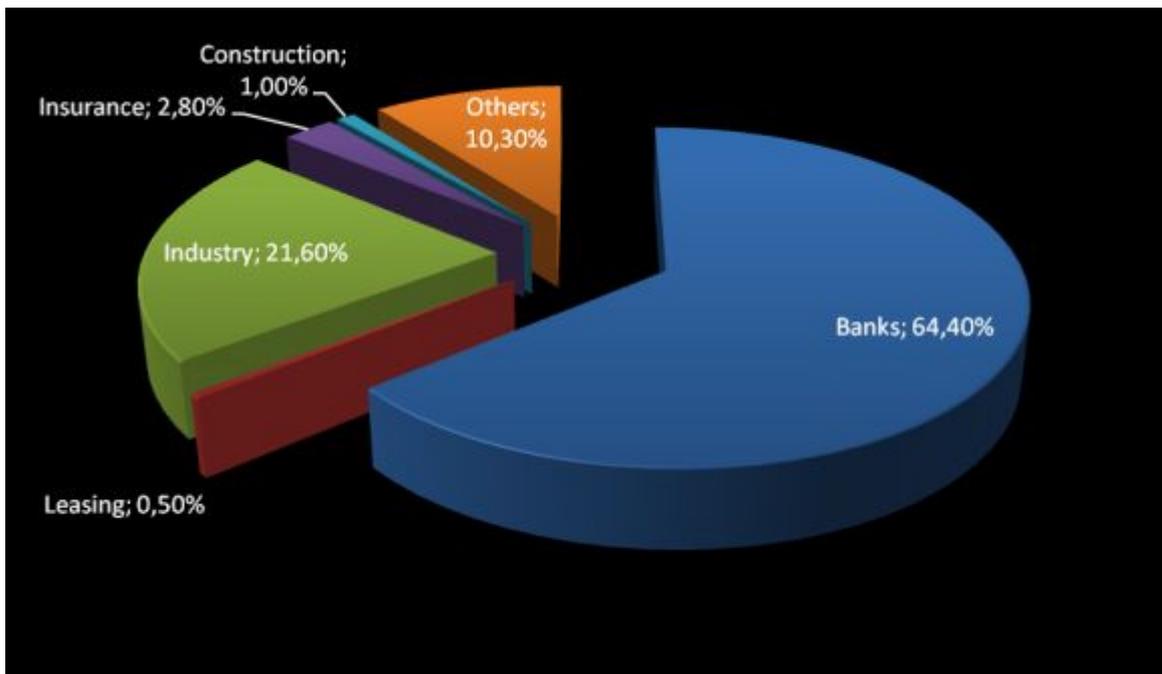
So, if in 2008 the proportion of securities of commercial banks constituted 39.1% of total stock market turnover, then in 2011 resulted this indicator constituted 64.4%, i.e. increased by 1.6 times.

High indicators of the banking sector are achieved largely through the actions undertaken to implement the Program of measures to further increase capitalization and investment activity of commercial banks for 2010-2012, approved by the Decree of the President of the Republic of Uzbekistan on April 6, 2010 № PP-1317 “On measures to further enhance financial stability and increase investment activity of the banking system”.

Also, significant amount of operations has been performed with securities of industry enterprises, which accounted for 21.6% (46.0 billion sums) of the total stock turnover.

Diagram 9.

Sector structure of the Republican Stock Exchange “Toshkent” for 2011



Source: made by author, based on data from Republican stock exchange web site <http://www.uzse.uz>

In general, the structures of total stock market turnover with securities in 2011 by major sectors are follows:

- the financial sector companies proportion accounts for 67.7% of the stock market turnover, or 144.6 billion sums (including banks - 64.4% of the stock market turnover, or 137.3 billion sums, insurance and leasing companies constituted 6.0 billion sums (2.8%) and 1.1 billion sums (0.5%) respectively). In comparison to last year, the turnover of securities of enterprises of the financial sector as a whole grew by 3.7 times (banks - by 4.2 times, insurance companies – by 1.2 times);

- the proportion of industrial sector - 21.6% of the stock turnover or 46.0 billion sums, or exchange (in 2010 - 13.2 billion sums - an increase by almost 3.5 times);

- the proportion of construction industry enterprises - 1.04% or 2.2 billion sums (in 2010 – 3.9 billion sums);

- the proportion of agricultural sector – 2.0% or 4.2 billion sums (in 2010 – 3.0 billion sums - an increase by 1.4 times).

One of the main factors that activate the functions of the stock exchange is expansion of the number of potential investors. Currently, as never before, this opportunity to get "quick money" by trading securities has increased. World practice shows that these securities offer higher returns and more reliable protection against inflation than any other type of investment. It is obvious that in our country class of investors, that activate their participation in securities market and understand that by acquiring shares of joint stock companies, they become owners of existing assets that have a real prospect of growth, is gradually beginning to form.

To attract the largest possible number of investors to the stock market, Republican Stock Exchange "Toshkent" took a number of important measures aimed at improving the technology of exchange transactions and reduction of transaction costs for trade participants.

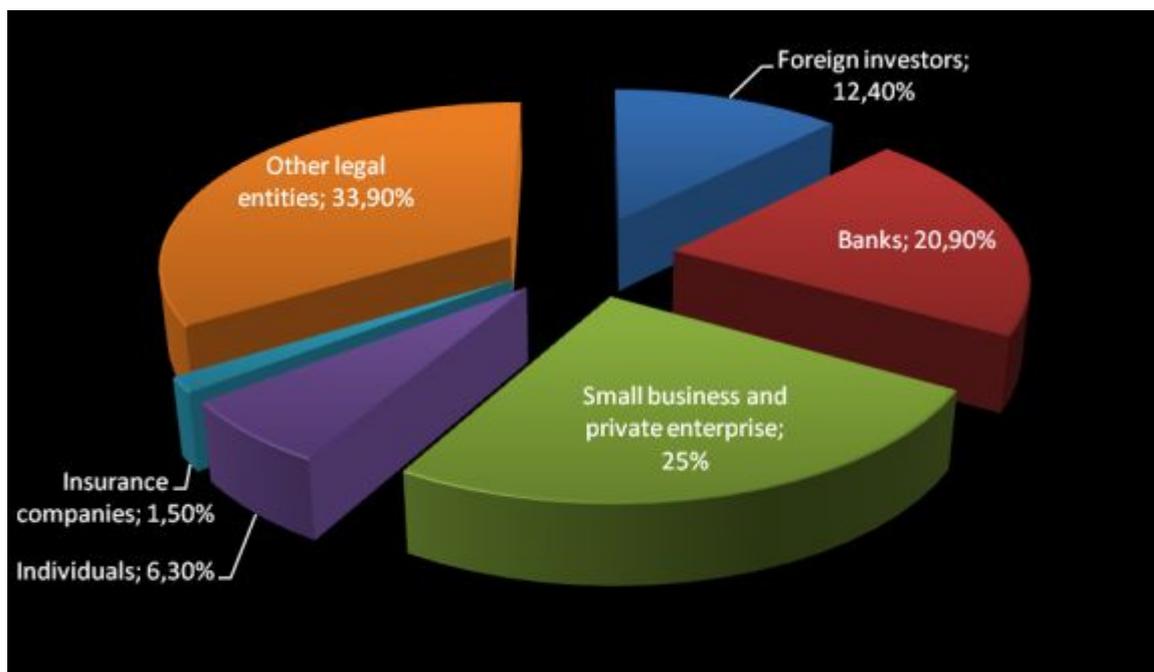
In order to reduce transaction costs (fees) for trade participants, RSE "Toshkent" has taken measures to reduce rates on commission fees for operations with securities. From April of 2011 exchange fees were reduced on average by more than two times compared to current tariffs.

Generally, considering the structure of exchange market by category of investors, it should be noted that in general, regarding amount of investment by legal entities, significant proportion has been made by small business and private entrepreneurship subjects (27% of legal entities investments), with securities of companies of all economy sectors, constitutes the major part of the stock market turnover - 199.7 billion sums or 93.7%.

The proportion of individuals in 2011 was 6.3% or 13.4 billion sums (in 2010 the proportion of investors - individuals was 13.4% in the total stock turnover or 8.6 billion sums).

Diagram 10.

Turnover structure of the Republican Stock Exchange “Toshkent” in terms of investors in 2011



Source: made by author, based on data from Republican stock exchange web site <http://www.uzse.uz>

Analysis of investments across industries shows that in 2011 individual investors mostly were interested in securities of the enterprises of trade sector (agricultural markets) - 52.9%, and securities of commercial banks - 45.5% of the amount of individuals' investments.

Financial sector related securities of the economy are the most trusted among investors – legal entities. Thus, the proportion of investment of legal entities in the securities of this segment of the economy in 2011 was 71.3% (in 2010 - 58.0%), of which 71.2% constitutes the shares of commercial banks (in 2010 - 47.3 %), 1.1% - insurance companies (in 2010 - 8.8%) and 0.01% - leasing companies (2010 - 1.9%).

In addition, in this category of investors the most attractive securities were securities of industry enterprises - 27.9% of the total investment of legal entities (in 2010 - 22.8%).

There is no doubt that raising level of investor confidence on stock market instruments and expansion of the population's participation and legal

entities in securities market is one of the major objectives of the Republican Stock Exchange “Toshkent” in future work. Accordingly, the promotion of investments in financial instruments, informing the public and investors are of important value in the further development of the domestic stock market, which ultimately would allow general population of Uzbekistan to participate in the development of enterprises, and in country’s economy as a whole.

Conclusion and prospects

This is either increase in circulation, intensification of transactions, gradual increase the portion of exchange segment from the total volume of trades, as well as development of the entire infrastructure of the stock market, and, finally, the active improvement of the legislative and regulatory activities. All this has aroused interest of the professional participants and of the public in the market of the country.

It is sufficient to note that the stock market turnover rose this year by more than 3 times, and in exchange’s listing there are 100 companies listed.

In order to further integrate into international stock market and to assimilate international experience, will be continued the work begun in 2010 with Korean Stock Exchange (KRX) to modernize stock market of Uzbekistan.

The main objective of this work is to expand areas of cooperation in all fields of activity of the two countries' stock markets, to provide access to modern information technology for building a modernized infrastructure of the stock market in Uzbekistan, which will greatly facilitate the search for potential partners for business through IPO in online mode, and much more.

The current legislative framework and constant work to improve exchange trading allows us to hope that in the near future, investments in securities will become one of the most popular ways of placing available funds.

The prospect of further increasing the number of investors in the stock market is closely linked with the need to meet the following objectives:

1. Conclusion of the Program of denationalization and privatization on the stock market of the government stakes of joint stock companies, including key economic sectors (oil and gas industry, energy, processing industry, etc.).

2. Increasing the number of listed companies capable of serving as a basis for further growth of the market and attracting all types of investors.

3. Considering increasingly role of insurance companies in financial service sector, creation of conditions for increasing the number of insurance companies operating in the form of open joint-stock companies, with subsequent involvement of these companies' securities in circulation at the stock market.

4. Creation of additional conditions to attract private investors (population) to participate in securities market, including through establishment of the special trading floor for realization of small stakes of shares to individuals.

5. Further improvement of the regulations and governing rules of exchange trades, as well as improvement of settlement and clearing technology, aimed at simplifying and improving reliability of investors' placement of their funds in securities.

6. Improvement of technologies and tools of exchange trading, including promotion of "repo" transactions among investors.

7. The development of stock market's information base, including:

- increasing informational level of stock exchange's web site;
- development of information and analytical channels covering stock market;
- establishment of information base that accumulates information about issuers.

8. Improving people's knowledge about stock market, about risks associated with investing in securities, including:

- organization of cycles of special programs on television and radio; regular publication of materials for the development of securities market in Mass Media;
- educational programs among schoolchildren and students.

Nevertheless, the Republican Stock Exchange “Toshkent” is not going to stop there.

Conclusions and recommendations

Investigation of modern trends of the International stock market, its impact on the world economy and major aspects of development, has allowed us to draw the following conclusions and recommendations:

Conclusions:

1. We can conclude that the most important economic and financial indicator in today's inflationary world is money supply. Trying to anticipate stock-market and GDP movements by analyzing traditional economic and financial indicators can lead to incorrect forecasts. To rely on these "fundamentals" is to largely ignore the specific economic forces that most significantly affect those same fundamentals — most notably the changes in the money supply. Therefore, following monetary indicators would be the best insight into future stock prices and GDP growth.

2. The international stock market witnessed significant changes during the last decade due to the world economic globalization. There is a significant change in the mechanism of stock trading due to the advancement in technology, communications, and asset management industry that changed the major features of stock markets. Finally, the phenomenon of globalization is more expanding and going in depth in the world stock markets, but it is still far from being a harmonized unified market.

3. The 2008 crisis brought the financial world to the brink of collapse. Since then, there have been a number of initiatives to identify and address the issues that led to the onset of the crisis. Although the recovery has been much slower than desired, positive developments are evident in the form of higher Tier 1 capital ratios and a lower number of non-performing loans. While this may be a step in the right direction, the path to full recovery is still long. High unemployment, low growth, and unsustainable debt levels could be interpreted

as yet another looming crisis. Moreover, waning trust in the system and its actors is reflected in volatile stock markets.

4. However, the prediction is nothing when huge number of determining factors and circumstances may begin to spin round so that no one expects. But most of predictions are positive and aimed on stable and steady growth of the International stock market.

5. The current legislative framework and constant work to improve exchange trading allows us to hope that in the near future, investments in securities will become one of the most popular ways of placing available funds. In general, the Republican Stock Exchange “Toshkent” in 2011 has done definite work on further development of the republic’s stock market and made a contribution to the issues of liberalization and deepening of economic reforms, giving new dynamics to privatization processes.